Nova Scotia

Report of the

AUDITOR GENERAL

March 31, 1991

Nova Scotia

Honourable Ronald S. Russell, C.D.
Speaker
House of Assembly

I have the honour to submit herewith the Annual Report to the House of Assembly required under Section 9 of the Auditor General Act, for the year ended March 31, 1991.

Respectfully submitted

Roy S. Gunn, C.A.
Acting Auditor General

Halifax, Nova Scotia
March 2, 1992

92-04489/

Table of Contents

	Page
Introduction	8
Overview	12
Audit Function and Reporting	
Mandate and Coverage..	18
Challenges to the Audit Mandate..	21
Accountability and the Legislature..	25
Role of the Public Accounts Committee.	28
Financial Topics	
Financial Position and Operating Results.	32
Additional Appropriations..	41
Crown Agencies and Corporations	
Introduction.	48
Review of Auditors' Reports.	48
Art Gallery of Nova Scotia	
Review of Operations.	51
Building Renovation and Restoration.	55
Bedford Waterfront Development Corporation.	59
Halifax-Dartmouth Bridge Commission.	66
Nova Scotia Resources Limited.	69
Schooner Bluenose Foundation.	73
Tidal Power Corporation.	76
Transfer Payment Reviews	
Introduction.	82
Hospitals	
Dartmouth General Hospital.	83
South Shore Regional Hospital.	87
School Boards	
Management of Human Resources.	91
Special Departmental Reviews	
Introduction.	98
Agriculture and Marketing	
Nova Scotia Agricultural College.	99
Community Services and Health and Fitness	
Hospitals and Homes for Special Care - Shared Services	102
Pharmacare Program.	106
Finance	
Provincial Tax Commission.	112
Government-Wide Departmental Audit	
Revenues, Expenditures, Systems and Controls.	114

Health and Fitness
Medical Services Insurance. 118
Natural Resources
Mines and Minerals, and Energy Branches. 121
Project Management Function - New Computer Systems
Follow-up to 1990 Review. 124
Result Indicators - Workload Productivity
Solicitor General. 133
Transportation and Communications. 136
Teachers' Pension Commission
Special Review. 140
Transportation and Communications
Registry of Motor Vehicles. 144

Other Audit Observations
Introduction. 150
Accounting Function Performance
Financial Statement Audits. 151
Cash and Other Losses
Specific Instances. 153
Provincial Retirement Plans
Introduction. 153
Public Service Superannuation Fund. 154
Members' Retiring Allowance Account. 155
Reservations of Opinion
Specific Cases. 158

Prior Years' Observations and Recommendations
From Annual Reports 1981 to 1990. 164

Office of the Auditor General
Review of Year's Activities. 180

Appendices
I Auditor General Act - Sections 8,9,15,17. 184
II Audits Performed by Auditor General
Government Departments. 187
III Audits Performed by Auditor General
Crown Agencies and Funds. 189
IV Audits Performed by Private Sector Auditors. 190

INTRODUCTION

INTRODUCTION

This is my Annual Report submitted to the Legislature as your Acting Auditor General. I am looking forward to serving with Mr. E. Roy Salmon, F.C.A. when he commences his term as your Auditor General on April 1, 1992. Mr. Salmon comes to us from the senior management level of the Federal Government with many years of experience in public and private sector auditing.

It has been a pleasure preparing this Annual Report in cooperation with a group of dedicated and competent professionals. Operating an audit office and preparing the Report with two fewer senior managers than last year has been a challenge, and I express my sincere thanks to all professional and support staff who made it possible.

This Annual Report covers approximately the same number of audits as last year. There has been a change in format to shorten its length. Each audit article commencing at page 45 includes sections on Background, Results in Brief, Audit Scope, Principal Findings, and Concluding Remarks. We have made a concerted effort to reduce the amount of time required for the reader to obtain the intended messages in each article.

Legislative auditing has been an evolving profession, particularly since the mid-1970's. Most provinces in Canada now have similar legislation with provisions to audit for due regard for economy and efficiency, sometimes referred to as value-for-money auditing. The evolution more recently has been stressing the need for accountability and the role of the legislative auditor in the accountability process.

Accountability in its simplest terms means the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties; one who allocates responsibility and one who accepts it, with the undertaking to report upon the manner in which it has been discharged. Audit is superimposed on that accountability process. Legislative auditors have no right to direct that something be changed but we do act as a catalyst for change.

Various areas of this Report will speak of accountability, the need for an accountability framework, and the need for performance indicators and information systems to report on responsibilities discharged. Legislative auditors will continue to conduct financial statement attest, compliance, and value-for-money audits, but recently there have been a number of instances of auditors attesting to the representations by management in their accountability reports. These accountability reports are discussed in more depth in the article "Accountability and the Legislature", commencing on page 25.

In 1991 Mr. O.P. Cormier, F.C.A. retired following a distinguished career as your Auditor General for seven years and your Deputy Auditor General for several previous years. He came to the Office from the academic community and was a moving force in encouraging staff members to upgrade their academic qualifications. There are presently 25 of 31 audit personnel (80%) with professional accounting designations and a further two students taking professional accounting training.

Mr. Cormier also encouraged the Legislature to make significant changes to the Auditor General Act in 1988. The changes with the greatest impact expanded the mandate of the Office to audit for economy and efficiency, and to audit transfer payment recipients including universities, school boards, hospitals, municipalities, and other community agencies.

The functioning of our Office requires a great deal of cooperation from all departments and agencies where we conduct audits, and a great deal of assistance from such organizations as the Civil Service Commission, the Department of Finance, Management Board and the Department of Government Services, from an administrative standpoint. We thank all departments and agencies for their continuing cooperation and service.

* * * * * *

OVERVIEW

OVERVIEW

The Annual Report includes those findings which I consider reportable in accordance with Section 9 of the Auditor General Act. Nearly all articles result from reviews which, on completion, have had detailed reports issued to the department or entity concerned.

This part of my Report is intended only as a very brief overview. It does not provide extensive details, but rather identifies what is covered in the articles. A full understanding of the issues can only be obtained through reference to the complete article. Most articles contain a section entitled "Results in Brief" which provides a very short summary of the key points.

Audit Function and Reporting

There are four topics discussed in this article: Mandate and Coverage, Challenges to the Audit Mandate, Accountability and the Legislature, and Role of the Public Accounts Committee. The first two describe the nature of the work of the Office, and include commentary on challenges to our mandate and delays encountered.

The third section of the article comments on the need for a more effective accountability process for government and for those entrusted with the expenditure of government assistance.

The fourth section includes comments on the important role played by the Public Accounts Committee, with suggestions for possible improvements.

Financial Topics

The "Financial Position and Operating Results" article includes analysis and commentary on four indicators commonly used in an evaluation of financial position and operating results, namely: net debt, operating deficit, major revenues and expenditures, and a comparison of actual results to the Estimates.

"Additional Appropriations" discusses amounts spent in addition to those approved in the Estimates. Commentary is provided for certain of the larger amounts, and there is a schedule of all those over $50,000.

Crown Agencies and Corporations

We review the auditors' reports for all crown agencies for which we are not the appointed auditors. In addition to commentary on the results of this review, the Report includes the results of six assignments completed by this Office during the year.

- *Art Gallery of Nova Scotia* – This was a review of selected operations of the Art Gallery, primarily pertaining to financial management and certain administrative and management practices. We also comment on our

review of the restoration and renovation of the Dominion Building by the Department of Government Services.

- *Bedford Waterfront Development Corporation* – The emphasis for this review was on the planning function, financial management, the accountability framework, and the financial position and operating results to date. We also comment on the Province's involvement in the funding of the Corporation.

- *Halifax-Dartmouth Bridge Commission* – This was a follow-up to the review we reported on in the 1989 Annual Report. Considerable progress has been made in addressing earlier problems and issues we had identified.

- *Nova Scotia Resources Limited* – This review concentrated on financial management, planning, and accountability to the Board of Directors, the Minister of Natural Resources and the Legislature.

- *Schooner Bluenose Foundation* – This review concentrated on the financial status, scope of operations and plans for the future, relative to the objects of the Foundation. Comments on a marine survey of Bluenose II are included.

- *Tidal Power Corporation* – This article includes comments on the current level of activity, costs and results, and future feasibility.

Transfer Payment Reviews

This year we comment on the results of three reviews completed under the provisions of Section 15 of the Auditor General Act.

- *Hospitals* – The results of our reviews of the financial management process and selected management functions at the Dartmouth General Hospital and the South Shore Regional Hospital are provided.

- *School Boards* – The results of the first phase of a two-phase assignment dealing with human resource management are reported.

Special Departmental Reviews

This section of the Report describes 12 assignments that vary in the nature and extent of our review.

- *Agriculture and Marketing* – Six areas of the operations of the Nova Scotia Agricultural College were reviewed and the systems and controls in each were evaluated.

- *Community Services and Health and Fitness – Hospitals and Homes for Special Care* – We reviewed certain hospitals and homes for special care to determine whether there are opportunities for sharing services such as administration, dietary, laundry and housekeeping which could result in savings to the Province. We found that deficiencies in information available at the Departments made it impossible for us to quantify savings.

- *Community Services and Health and Fitness – Pharmacare Program* – Both the Department of Health and Fitness and the Department of Community Services have responsibilities relating to components of this program, although payments are administered by Maritime Medical Care. We reviewed the administrative management policies and control procedures for the program.

- *Finance – Provincial Tax Commission* – This is an annual review of selected activities, with our focus this year on the Health Services Tax Division. We note that improvements in account monitoring have been made, and we recommend some improvements in systems and procedures.

- *Government-Wide Departmental Audit* – Results are presented of an audit of revenues and expenditures of government in which the audits of most departments are consolidated into a single assignment. Specific comments are made on noted weaknesses in controls and non-compliance with legislative and departmental requirements.

- *Health and Fitness* – This article is on our review of the Medical Services Insurance plan, and system controls over electronic claims, both administered by Maritime Medical Care Inc. on behalf of the Department.

- *Natural Resources* – This review assessed the project management practices of the Mines and Mineral, and Energy Branches of the Department.

- *Project Management Function – New Computer Systems* – This is the second phase of our 1990 review with respect to the acquisition and development of computer resources within government. The article provides commentary on the need to further strengthen this area.

- *Result Indicators – Workload Productivity* – These two articles examine workload productivity and follow up on the use of result indicators, reviewed and reported upon in our 1987 and 1988 Annual Reports. Concentration this year was in the Departments of Solicitor General and Transportation and Communications.

- *Teachers' Pension Commission* – The last completed actuarial review of the Fund was as of July 31, 1988. Comments on the condition of the Fund are included in our 1989 and 1990 Reports. This year's article comments on our recent review of accountabilities and responsibilities related to the Fund. We again comment on the seriousness of the unfunded liability.

- *Transportation and Communications – Registry of Motor Vehicles* – We reviewed and assessed the key transaction processing and general information system controls, and also reviewed the status of actions to resolve problems identified in a 1988 post-implementation review of the system.

Other Audit Observations

Three articles in this section are of significance.

- *Accounting Function Performance* – In prior years it was necessary to report extensive delays in the completion of financial statement audits. There was a significant improvement in the March 31, 1991 fiscal year-end statements, principally from a joint initiative by the Department of Finance and this Office, but also a notable change in priorities and improvement in readiness within the entities.

- *Provincial Retirement Plans* – This article includes the Public Service Superannuation Fund and the Members' Retiring Allowance Account. Commentary on the Members' Retiring Allowance Account points out our concerns, based on the latest actuarial review, that the deficit in the account is growing significantly as a result of increased benefits.

- *Reservations of Opinion* – In accordance with the provisions of Section 8 of the Auditor General Act, it was necessary to reserve opinion on certain audits. They are described or cross-referenced in this section.

Prior Years' Observations and Recommendations

This section tabulates the status of observations and recommendations from prior years' Annual Reports.

Office of the Auditor General

This section provides information on staffing, financial results, various professional and training activities, and other related matters pertaining to the Office.

* * * * * *

AUDIT FUNCTION AND REPORTING

AUDIT FUNCTION AND REPORTING

Introduction

The purpose of this article is to provide background on the role of the Office of the Auditor General and the audit environment within which the Office functions. Our comments are organized under four captions:

Mandate and Coverage
Challenges to the Audit Mandate
Accountability and the Legislature
Role of the Public Accounts Committee

Mandate and Coverage

The mandate of the Office of the Auditor General flows from the Auditor General Act. This Act was proclaimed in 1973, with significant amendments made in 1988.

Sections 8 and 9 of the Act contain the basic auditing and reporting responsibilities; Section 15 provides authority to audit the accounts of those to whom government grants and other assistance have been provided; and Section 17 provides certain reporting requirements and the right of the Office to conduct additional examinations and investigations in crown agencies and corporations whose annual audit is performed by a chartered accountant other than the Auditor General. These sections of the Auditor General Act are reproduced in Appendix I.

The primary objective of the Office of the Auditor General is to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds. It should be emphasized that the Office is not part of the accountability link but superimposed on the accountability relationship. It is the Government and administration who have the prime responsibility for accountability reporting.

A secondary objective of the Office is to assist Deputy Ministers and agency heads in holding their administrators accountable to them. Again the Office role is superimposed on an existing accountability relationship. We report at the conclusion of each audit on the significant areas audited, as well as our recommendations for improvement. The success or effectiveness of the Office is directly related to action taken by others outside the Office. Our authority ends with reporting. While we apply professionalism in auditing, and reporting on audits, we have no authority to direct that something be changed. We can only be a catalyst for change. In the majority of cases we receive excellent cooperation and action on our recommendations.

Activities – The audits performed by the Office fall into three categories – attest, compliance, and broad scope – with the latter further sub-divided into crown corporations and agencies, special assignments, and transfer payment audits.

Attest Audits

Attest or financial statement audits involve the expression of an opinion on a set of financial statements as to whether the results of operations and the financial position of the entity have been fairly presented in accordance with generally accepted accounting principles or, sometimes, the entity's stated accounting policies.

An important aspect of attest audit work is the study and evaluation of internal controls when reliance is being placed on those controls as part of the audit. Internal controls are the systems and procedures developed by management to safeguard assets, and to ensure the accuracy and reliability of accounting data. Although Section 8 of the Auditor General Act assigns responsibility to the Office to assess the internal controls in government departments, the audit opinion on the Public Accounts is given by a firm of private sector auditors.

In evaluating the internal controls in government departments we ascertain whether essential records are maintained and procedures are applied regarding revenues and expenditures, and the safeguarding of public property. There can be, to some extent, a duplication of effort in our mandated responsibility under Section 8 and the procedures required by the private sector auditors in applying generally accepted auditing standards. This has been emphasized in the Annual Report of the Auditor General for a number of years. Nova Scotia is the only province in Canada where the audit of the Public Accounts is conducted by other than a province's Legislative Auditor.

The Office of the Auditor General audits and expresses an opinion on the financial statements of numerous crown corporations, agencies and funds (see Appendix III). While there are several other crown corporations and agencies audited by private sector auditors (see Appendix IV), most financial statements are displayed in Volume II of the Public Accounts of Nova Scotia.

In the case of both departmental and crown corporation and agency audits, it is sometimes necessary to express an opinion with reservations, usually because of weaknesses in internal control or accounting presentation. Most of these situations are described in the article "Reservations of Opinion" commencing on page 158. Others are included in the government-wide audit described below.

The manner of conducting and scheduling our audits of government departments was significantly revised in the 1989 audit year in order to achieve improved operational effectiveness. The revised approach involves the auditing of payroll and other expenditures, revenues and internal controls on a government-wide basis, rather than in a series of separate audits in individual departments. As well, the audit consists of reviews of compliance with legislation within all departments, cycled over a number of years. The results of this year's experience are described more fully in the article "Government-Wide Departmental Audit" commencing on page 114 of this Report.

Compliance Audits

Audits are conducted in government departments and crown agencies to assess whether transactions and other aspects of operations comply with legislative and other requirements. These include Provincial Acts, Regulations of government,

Management Board policies, and directives of the departments and agencies. Sections 8 and 17 of the Auditor General Act assign the Auditor General responsibility for conducting these compliance audits.

Our compliance auditing responsibility is principally fulfilled by the "Government-Wide Departmental Audit", described above under attest audits, supplemented by several in-depth individual departmental audits. Departmental audits, which are performed on a cyclical basis, comprise a significant portion of our annual audit activities.

Broad Scope Audits

Broad scope audits focus on the actual management of a functional area, including programs and projects. More specifically, these audits are designed to determine whether:

- the program or activity under review is economically administered, with goods or services being obtained in the proper quantities, at the proper times, and at economical prices;
- the work is performed efficiently making the best use of available human and materiel resources;
- reasonable attempts are made to measure and report on program results;
- appropriate and timely information is available to management for decision-making purposes; and
- there are appropriate accountability relationships established within the entity and to the Legislature.

It is important to note that this Office does not evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery. These functions should be performed by the management of the department or agency. This Office assesses the extent to which management has carried out these functions.

Broad scope audits have been conducted regularly by this Office, and several are reported upon in this Report. The three types of broad scope audits we perform are described below.

Crown Agencies and Corporations – There are crown agencies and corporations whose annual financial statement audits are performed by chartered accountants other than the Auditor General. Appendix IV schedules these.

Under Section 17 of the Auditor General Act, the Office is provided annually with these audited financial statements, and all reports to management prepared by their auditors. A summary of our review of these reports (usually termed management letters) is found in the article on page 48.

Also, the Act provides that the Office may conduct such additional examination and investigation of the records and operations of these agencies as are deemed necessary. In 1985 we prepared a five-year plan providing for a minimum of one audit

examination in each crown agency and corporation during the following five-year period. The cycle of original audits in that plan has been completed. During 1991 six such examinations were conducted, and are reported on separately beginning on page 51.

Special Departmental Reviews – These include an in-depth review of an activity or program within a department, and government-wide reviews of an activity or function. (12 audits of this type are described in the section commencing on page 99.)

Transfer Payment Reviews – By virtue of amendments made in 1988 to the Auditor General Act, this Office has the mandate to perform examinations and audits of entities or organizations receiving financial assistance from government. The results of a number of audits in universities and school boards were reported in our 1990 Annual Report. This year we are reporting on examinations at two hospitals and on a survey of some aspects of human resource management in the Province's school boards. (An article commencing on page 82 describes these audit initiatives more fully.)

Challenges to the Audit Mandate

Since the mid-1970's the mandate of Legislative Auditors in all jurisdictions in Canada has been expanded substantially. In Nova Scotia this expansion included in 1988 the mandate to assess whether expenditures have been made with due regard for economy and efficiency. These two elements may be described as:

Economy – Acquiring an appropriate level of a resource, at an appropriate level of quality, on time, and at an appropriate cost.

Efficiency – The relationship between the quantity and quality of the goods or services produced (outputs) and the cost of resources used to produce them.

This expanded mandate in some respects clarified an existing unofficial mandate. However, Section 9 of the Auditor General Act has added a reporting responsibility to the Legislature when *"money which is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency."*

This responsibility can only be fulfilled efficiently if we have the full cooperation of the departments of government and particularly the central agencies of government. We have experienced certain problems in this regard which are outlined in the following paragraphs.

Section 10 (1) of the Auditor General Act, Access to Information, provides the access mandate for the Office and reads as follows:

> *"10 (1) Notwithstanding the provisions of any other Act, every officer, clerk or employee of an agency of government shall provide the Auditor General with such information and explanation as the Auditor General requires and the Auditor General shall have free access, at all times, to the files, records, books of account and other documents, in whatever form, relating to the accounts of any agency of government."*

We have interpreted this as providing access to all operational information of government. We recognize the confidentiality of deliberations by the Executive Council, but the Office should have access to most operational information generated by departments and departmental committees of government. To not have such access is detrimental to this Office's efforts to arrive at an assessment of due regard for economy and efficiency.

It should be emphasized that, in the conduct of our audits, the vast majority of those with whom we deal in the departments and agencies demonstrate a respect and consideration for the Office's mandate. They understand the role of the Office and accept the need for an independent review on behalf of the Legislature. It was necessary this year, however, to request legal counsel concerning access to information for the completion of one audit and the commencement of audits in another area. We also experienced what we considered to be an unnecessary delay in the commencement of an audit. The following are comments on these three areas: EDP Advisory Committee, Human Resource Management, and the Coordinated Home Care Program.

EDP Advisory Committee (EDPAC) – EDPAC is a Management Board committee, chaired by the Deputy Minister of Management Board. The Committee includes the Deputy Ministers of Finance and Government Services, as well as other Deputy Ministers on a rotational basis. It provides challenge and approval/non-approval of departmental submissions, of material dollar magnitude, for new or expanded EDP systems.

We were denied access to EDPAC minutes during our project management audit reported on page 124, and instead were referred to departments for details on submissions and EDPAC decisions. This approach is somewhat inefficient for our audits but, of even more importance, leaves a void in our full assessment of whether due regard is being given to economy in the development and enhancement of large computer-based systems costing in the millions of dollars.

We were advised by the Chairman of EDPAC that the Committee has the same information as the departments and no additional information. He considers the Committee as one which develops briefing documents and policy advice for recommendation to the Chairman of Management Board who makes the final decision. The material is, therefore, considered protected by Cabinet confidentiality. The decisions are communicated to the departments with little substantiation for approval or non-approval.

We have had discussions with the Deputy Minister of Management Board and the Deputy Attorney General. The Deputy Attorney General provided us with a legal opinion on February 27, 1992 that states "*...the records of EDPAC are in the same category as Cabinet records. The discussions which take place among the deputy ministers who participate on EDPAC, and the recommendations they make to the Chairman of Management Board, are all in the nature of advice given by public servants to decision makers.*" As such, he considers this information to be unavailable to our Office and suggests that the audit process should examine only the departmental submissions and implementation of the decisions by EDPAC for due regard to economy and efficiency.

There are practical difficulties and limitations associated with the impact of the legal opinion on future audits by this Office of information systems projects and expenditures. The documentation and filing standards at the departmental level will have to be improved so that the required information can be more easily obtained. Further, arrangements or mechanisms will have to be implemented to enable us to satisfy ourselves that we have in fact identified and reviewed all pertinent documents and specific approvals by the EDPAC.

The Deputy Attorney General has also stated that "*Management Board staff do perform operational functions that are unrelated to the decision-making functions of the Cabinet Committee and those operational functions are subject to audit by the Auditor General.*" It is still our view that certain activities of the EDPAC fall within this category such as major project evaluations and reviews, and consideration of project follow-up reports. These we consider to be more of an operational nature and we should have appropriate access to the results if we so choose.

It is our intention however to abide by the limits outlined in the Deputy Attorney General's opinion. Any significant limitations of scope or coverage that arise will be noted in future Reports.

Human Resource Management (HRM) – The Deputy Minister of Management Board has considered our mandate to be limited and has not permitted in-depth audits of the various key functions characterized as human resource management – staffing, classification, professional development, performance appraisals, and others. It has been our position that Section 8 (c) of the Auditor General Act (whether money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency) provides this Office with a mandate to examine not only systems in place but to test those systems through an examination of transactions.

Again we have a legal opinion by the Deputy Attorney General dated February 27, 1992. In this area he has confirmed that human resource management is an operational function and is subject to audit by the Auditor General, including the authority to sample transactions. It is important to elaborate briefly on this confirmation since the concerns of the Deputy Minister of Management Board extended beyond the mandate to include confidentiality of information pertaining to individual employees and the expertise of the Office of the Auditor General to conduct such audits. We recognize these as valid concerns that the Office must keep in mind.

Concerning confidentiality, I can only say that it is something we deal with every day and on virtually every audit. We are particularly mindful of confidentiality of personal information and take steps to avoid naming individuals in all cases and avoid reference to titles whenever possible. We also take an oath of confidentiality under Section 5 of our Act.

Concerning expertise, we are careful in not going beyond our known internal Office levels of expertise without the part-time assistance of fully qualified advisors. Having said this, we do have experience in various aspects of human resource management and several staff have taken professional development courses in the auditing of human resource management.

Expenditures on HRM constitute approximately 11% of total government expenditure in any year and 63% if grants and assistance, and debt carrying charges are excluded. To exclude detailed examination of key aspects of human resource management, as part of our audit planning in assessing due regard for economy and efficiency, would place a significant scope limitation on our audit mandate and reporting responsibility. In summary, we have not only a mandate, but also an obligation on behalf of the Legislature to fully review one of the largest objects of expenditure of government.

Coordinated Home Care Program (CHCP) – This is a less serious matter of access but one that should be mentioned as an exception to the usual cooperation we receive from departments of government.

We were requested by the Deputy Minister of the Department of Community Services to defer a planned audit in this program area in favour of a program evaluation of the area requested by Executive Council. The program evaluation was being conducted by a committee comprised of staff from the Research Divisions of the Departments of Community Services, Health and Fitness and Housing.

The major service delivery responsibilities for the CHCP are shared between the Departments of Community Services and Health and Fitness. The Deputy Minister of Community Services has primary administrative responsibility for the program. It is a program for which the Office has had tentative audit plans for some time to consider the economy and efficiency of operations.

We approached both the Departments of Health and Fitness and Community Services in August 1991 and, in fact, completed some preliminary work with the cooperation of both Departments. Our fieldwork was not scheduled to start until the joint program evaluation by the two Departments had reached the reporting stage of the first phase of their evaluation. The first phase report was expected to be written during November and due December 1, 1991. Unfortunately, in late October we were informed by the Department of Community Services that we would not be permitted to commence our fieldwork scheduled for the first week of November because of the pressures on staff of having two studies conducted at the same time.

We have difficulty in accepting this as a valid reason for refusing to have the audit commence. The main thrust of the program evaluation for the first phase was to be the organization structure of the program (a review based in the departments) whereas our area of concentration was to be service delivery (a review based in two homemaker agencies in the Province). As an alternative to deferral that would provide us with information to report to the Legislature, we suggested release of the program evaluation report to this Office exclusive of its recommendations to the Executive Council. We have not yet received this information to include comments in our Annual Report because the program evaluation has not yet been finalized. We will again attempt an audit of this program but since the program evaluation is planned in two phases, and the report for the second phase is not due until June 30, 1992, the timing of a future audit of this program is unknown.

We do not wish to diminish the importance of the program evaluation that apparently caused the conflict. Program evaluation in fact goes beyond considerations of economy and efficiency, looking at the actual objectives of programs, their continuing viability, their intended and unintended effects; considerations that are impor-

tant for all programs, particularly in times of fiscal restraint. We fully support program evaluation. However, the role of this Office in reporting to the Legislature is also important and this situation was a significant exception to the cooperation that we normally receive from departments.

Accountability and the Legislature

The Auditor General's Report for the year ended March 31, 1990 contained a number of references to accountability that bear repeating.

Accountability in its simplest terms means the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties; one who allocates responsibility and one who accepts it, with the undertaking to report upon the manner in which it has been discharged. There is obviously a need for a performance and expectations framework within which to either report or receive a statement of accountability.

The Ontario government, in its *Transfer Payment Accountability: A Manager's Guide*, outlines the accountability process in four steps.

- *Setting Expectations* – Involves deciding on the objectives and the results that the recipient is to achieve with the transfer payment. Expected results will vary with the nature of the accountability relationship and the program itself. Results expected may be limited or they could relate to outputs (such as units of service provided); efficient, economical, and effective management of resources; and compliance with provincial policies and standards.

- *Contracting* – Involves arriving at an understanding between the ministry and the recipient on the conditions applicable to the transfer payment. Conditions may relate to funding, objectives, results, and other obligations to be met, and reporting of accountability information.

- *Reporting* – Information to be reported should be sufficient to assure the ministry that the conditions set out for the transfer payment have been met. Care should be taken to ensure that only essential data are requested at a level of detail that is reasonable, and that the ministry has the capability to monitor and follow up on data submitted.

- *Corrective Action* – To be taken if objectives and results, expenditure limits or information requirements are not being met.

The task of establishing and maintaining acceptable accountability relationships, both on the part of the recipient of government assistance and the governing bodies themselves, is not easily accomplished. It requires considerable time and effort, as well as commitment and understanding, to establish an acceptable accountability reporting relationship. There has to be understanding and agreement with objectives and expected results, agreement on a satisfactory mechanism to report the objectives and results on a timely basis, and consensus on the responsibilities for and type of corrective action when objectives and results are not achieved.

A consideration of the foregoing breadth and depth of accountability reporting clearly establishes the point that an audit opinion on an entity's financial statements does not provide complete accountability. Entity or program objectives, expected results or outcomes, evaluation of actual results, and decisions regarding corrective action all go far beyond the traditional financial statement audit. Thus the preparation and presentation of audited financial statements alone will normally be insufficient to satisfy an accountability reporting requirement.

Several additional items from last year's Annual Report are worth repeating because they suggest that existing accountability processes are deficient and require improvement.

- The Royal Commission on Health Care in its December 1989 Report stated that "*...managing the health care system necessitates a high degree of accountability from those to whom government delegates authority. Accountability and coordination will be strengthened by providing health care professionals with opportunities to participate in planning and management.*"

- In its June 1990 report to the Department of Education, Doane Raymond recommended that the Minister should establish an accountability framework which describes information and reporting requirements. They also suggested that "*to make best use of limited resources government must have systems and procedures which measure outcomes and the impact on these outcomes of alternative courses of action. As in other public services, measuring desirable outcomes is a challenging task. But this is not a reason to reject outcome measurement.*"

- A research project entitled *Universities and Government*, sponsored by The Institute for Research on Public Policy and published in 1990, stated that "*much of the expectations gap -the gap between what external funders want and what they perceive universities to be doing – reflects the inability or unwillingness of universities to provide thorough and useful information on what they are actually doing. It is also very likely that the information presently collected internally can, suitably adjusted and wrapped, satisfy many of the external demands, but that some creative new information will also be necessary.*" It also stated that "*the taxpayer deserves a better explanation than currently offered of what universities accomplish with the resources made available ... Institutions which live off annual allocations cannot afford the luxury of insisting on being taken on faith at all times.*"

Last year's Report noted that these excerpts and quotations are indicative of an increasing awareness by interested parties of the need for a far more effective accountability process for government and for those entrusted with the expenditure of government assistance. It went on to state that any discussion of accountability must consider how to arrive at a measure of effectiveness, and get away from the tendency to measure inputs rather than outputs and outcomes.

The following attributes, developed and presented by the Canadian Comprehesive Auditing Foundation (CCAF) in its 1987 study *Effectiveness Reporting and Auditing in the Public Sector*, are again presented and warrant serious consideration as a

framework. They have been successfully applied at several levels of government by both management and governing bodies, although not in Nova Scotia to date.

Following each attribute is a question or two, indicative of the types of questions internal management and external funders would expect to have answered in the effectiveness report. Each and every attribute is not necessarily applicable to each entity.

1. Management Direction	Does everyone understand the objectives of the organization and their own role?
2. Relevance	Do activities continue to make sense in addressing the needs for which they were intended?
3. Appropriateness	Are we going about achieving our objectives in the best way?
4. Achievement of intended results	To what extent have goals and objectives been realized?
5. Acceptance	Do those who use a program or service judge it to be satisfactory?
6. Secondary impacts	Are there any significant consequences – intended or unintended and either positive or negative – occurring?
7. Costs and Productivity	What is the relationship among costs, inputs and outputs?
8. Responsiveness	How well does the organization anticipate and respond to change?
9. Financial Results	How do revenues compare with costs? How do assets compare with obligations?
10. Working Environment	Does the working environment promote commitment, initiative, safety and employee development?
11. Protection of Assets	How well protected are key resources?
12. Monitoring and Reporting	Does everyone have the information they ought to have? Do they use it?

There should be a framework for accountability, one that can be used by individual entities in various sectors. Uniformity of framework would be beneficial much in the same way as generally accepted accounting principles permit a general understanding for those reviewing financial statements from various sectors and entities. The effectiveness reporting suggested by the CCAF, or some variation of it, could be recommended by the Legislature for development and use in at least the medium to large departmental programs, crown corporations and agencies, hospitals, universities, school boards, and other institutions and societies receiving financial assistance from government.

The implementation is not an easy task, requiring time, understanding and some assistance, but it would improve the means by which recipients of financial assistance may achieve a true accountability relationship with government, while periodically evaluating their own status. On the government side, there will be a need for soundly based policies regarding level and type of service to be funded by taxpayer dollars.

Beyond general policies, government must strive in conjunction with all those who provide services to develop meaningful and affordable levels of expectation. That is, there have to be more precise and measurable expected results. A framework, including expectations and standards, which has been mutually agreed upon by both governing bodies and management, will have to be developed and used in a committed manner in order to accomplish what is expected of both parties.

Perhaps the most critical ingredient for a successful accountability framework and an effectiveness reporting structure is an adequate information system. Concerns for better information have been strongly emphasized, for example, in numerous studies and commentaries on the health care system, particularly as to the need for better data on results and outcomes. Inasmuch as health care is the single largest expenditure item for government, and the one which poses the greatest challenge to control, it would seem that government priority for development of better information systems should be directed to this field.

Much in the same way as external auditors express an opinion on the financial statements of an entity, the same may be suggested for effectiveness reporting. It will not be cost effective to prepare, and have audited, an effectiveness report for each program or entity on an annual basis, but a cyclical coverage of possibly once every five years would go a long way to strongly supplementing the annual audited financial statements of each entity, and the minimal financial information provided on departmental programs in the annual Estimates and Public Accounts.

The Office of the Auditor General has a modest sized staff to fulfill its mandated responsibilities. This is an important area however that the Office strongly supports. We would be willing to play an active role in the attestation of effectiveness reports, and an advisory role in a framework implementation. The adoption of effectiveness reporting would automatically require recipients of government assistance to consider outcomes as opposed to continually being concerned with inputs.

Role of the Public Accounts Committee

The Public Accounts Committee (PAC), in certain respects the audit committee for the Legislature, is very important to us. The effectiveness of the PAC has a direct bearing on the extent to which the Office fulfills its mandate. The Auditor General is a servant of the House of Assembly. Not only are the rights, duties and responsibilities of the Office contained in legislation, there is the duty to report annually to the House. Traditionally, the Auditor General meets with a standing committee of the House, the Public Accounts Committee.

In last year's Annual Report we were able to say that the Public Accounts Committee had been developing means to improve its role in the accountability process of

government. The efforts at the time included a more formal enunciation of the roles and responsibilities of the Committee, an improved structure for conduct of meetings, greater use and liaison with the Office of the Auditor General, and a process for follow-up action with respect to Committee recommendations.

Several meetings were held by a sub-committee, some of which were attended by the Auditor General and/or other representatives of his Office. A certain amount of discussion took place concerning the process to be followed in the search for a replacement on the Auditor General's retirement in the summer of 1991. I am pleased to report that the considerations discussed were very close to those adopted and followed during the search for the Auditor General.

Unfortunately, in other areas of discussion the same degree of unanimity was not forthcoming. This Office believes the meetings were not in vain and we urge a further meeting to finalize the accomplishments to date. The major area of difference seemed to relate to the role of a Steering Committee as a sub-committee of the PAC and its proposals concerning an agenda for full committee meetings. The existence or non-existence of a Steering Committee would seem to be minor relative to the overall effectiveness of the Public Accounts Committee.

My opinion is that the formal meetings have run more smoothly as a result of the deliberations by that sub-committee. It is difficult to pinpoint precisely, but there seems to be a greater awareness of the need to finalize a topic under discussion, and seek or permit other points of view, with less emphasis on keeping rigidly to assigned time limits. This is a step in the right direction.

This Office would naturally like to see a move towards the following additional improvements:

- a meeting agenda that would permit us to attend and respond to questions with the availability of the most appropriate information and possibly the most suitable resource person;

- a report to the Legislature with appropriate recommendations from the Committee as guidance for departments, crown corporations and agencies, or officials of other entities receiving financial assistance from government; and

- a suitable system for follow-up of Committee recommendations, with or without the assistance of the Office of the Auditor General.

I believe that if the Committee could satisfy these requirements, it would be placing itself among the more effective committees across the country.

Since the Public Accounts Committee serves as the major interface between the Office of the Auditor General and the Legislature, there are two additional items, raised in previous Annual Reports, that should be discussed.

One of these is legislative provision for more independence for this Office. Last year this request included all-party representation in the appointment of both the Auditor General and the Deputy Auditor General. While handled administratively

rather than by legislation, this took place with even greater independence in the search for a new Auditor General than had been suggested – nationally advertised by a search firm, initial interview and proposed ranking by a non-government selection committee, and all-party discussion.

The other factor in providing more independence for the Office of the Auditor General is the suggestion that there should be provision for a Committee of the House, rather than the Government, to have exclusive jurisdiction in administrative, budgetary and related matters to ensure that the independence and proper functioning of the Office is not impaired. This should not be interpreted as suggesting we have been dealt with unfairly up to this point in time since we have not been. The essence of a separate Committee of the House with exclusive jurisdiction relates to the Office being a servant of the House and thus requiring an extra degree of independence in view of its mandate and responsibilities.

The second revision to the Auditor General Act proposed last year, and in several previous years, referred to the responsibility for the audit opinion on the financial statements of the Province. Nova Scotia is the only province in Canada which engages a public accounting firm to attest to its financial statements. This responsibility could be assumed by the Office for less cost than the existing contract, in view of the required coverage under our current mandate and responsibilities.

Moreover, it is our opinion that a greater degree of independence would be provided through our reporting to the Legislature than is presently being provided under the Provincial Finance Act which calls for the external auditor to provide an opinion on the financial statements to the Minister of Finance.

* * * * * *

FINANCIAL TOPICS

FINANCIAL POSITION AND OPERATING RESULTS

Our Annual Reports for the past several years have included commentaries on the financial position and operating results of the Province. Again this year we comment on these same topics.

The fiscal year ending March 31, 1991 produced an operating deficit or excess of current operating expenditures over revenue and recoveries of approximately $146 million. This figure was $62 million in 1989-90, and was $118 million greater than that included in the Estimates for the 1990-91 fiscal year.

The financial position of the Province as reflected in its net debt continued to deteriorate because of continuing deficits on operations and capital expenditures.

The Government, in its Budget Address of May 14, 1991, indicated that the 1991-92 fiscal year would be a very difficult one due to continuing recessionary pressures and the resulting slow rate of growth in Provincial revenues, as well as spending pressures on government particularly in the areas of health, education and social services. Although the Government repeated its commitment to deficit reduction, it now intends to achieve a balanced budget in 1993-94, rather than 1991-92 as previously planned.

NET DEBT

The most commonly used indicator of a province's financial position is its net debt, which is the excess of liabilities over realizable assets. The net debt is the sum of the accumulated operating deficits of the Province and capital expenditures. The Statement of Financial Position in the Public Accounts highlights this amount.

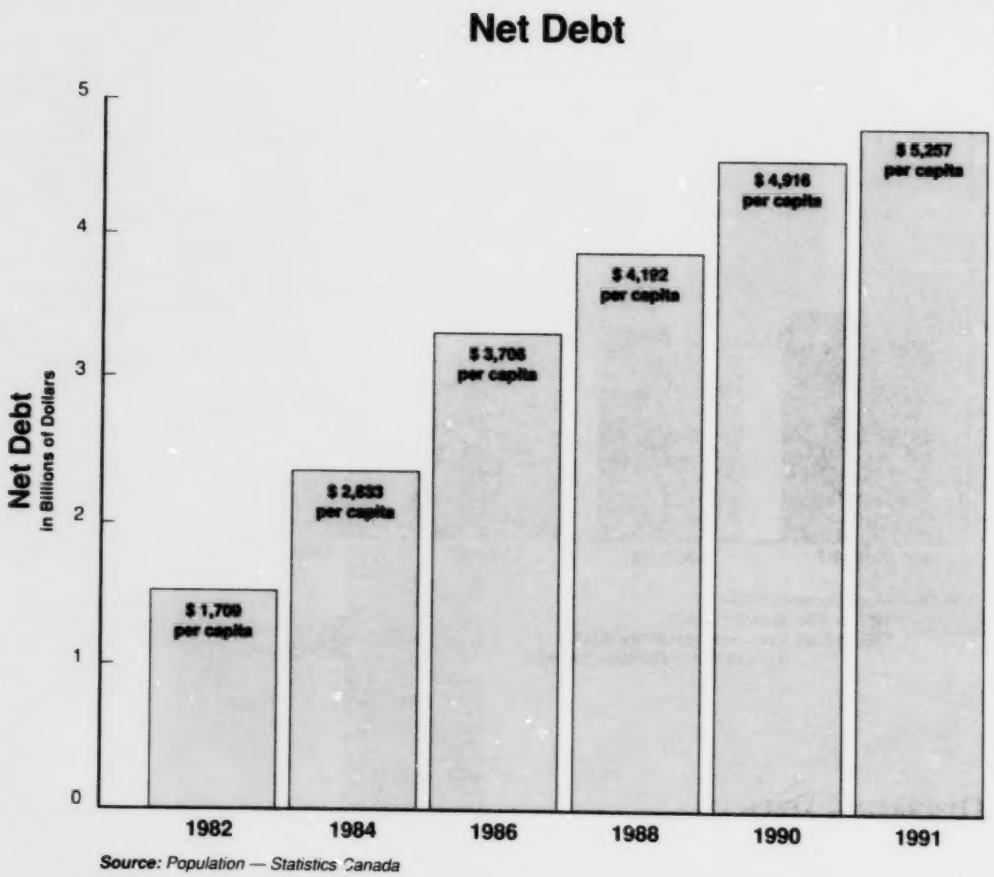
During the period from April 1, 1990 to March 31, 1991, the net debt increased by $277 million or 6.2% to $4.7 billion.

Over the past decade, the net debt has increased to almost five times its 1981 level, from $987 million to $4.7 billion. This increase of $3.7 billion is attributable to:

Capital expenditures	$2.2 billion
Net excess of operating expenditures over operating revenues	2.4
	4.6
Less: Sinking fund earnings	.9
	$3.7 billion

Of the $3.7 billion increase in the net debt over the past ten years, 52% is attributable to operating deficits and 48% to capital expenditures. Exhibit I illustrates the growth of the net debt over the past ten years.

Exhibit I



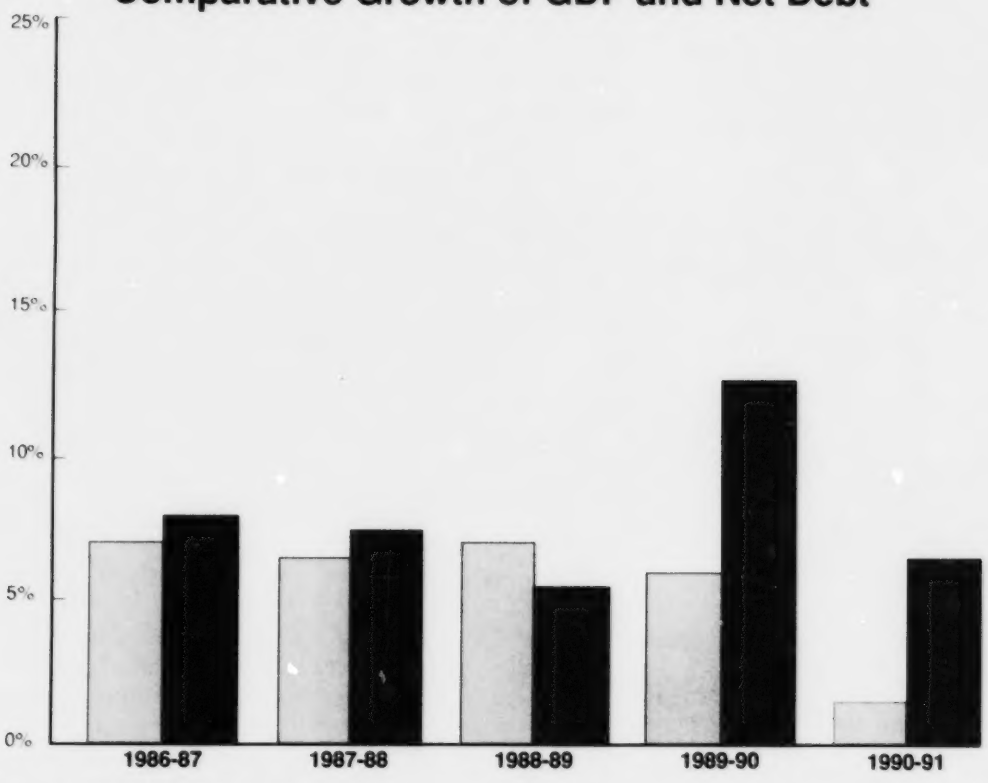
Source: Population — Statistics Canada

One of the measures used to evaluate the net debt of a government is a comparison of the rate of growth of the net debt to the rate of growth of the economy. The Gross Domestic Product, which represents the value of all goods and services produced in the Province in the year, is used by economists to measure growth in the economy.

Exhibit II compares the percentage change in the Province's Gross Domestic Product to the percentage change in the net debt over the past five years. The graph shows that in four of the past five years the net debt grew faster than the Province's economy.

Exhibit II

Comparative Growth of GDP and Net Debt



Sources: *Gross Domestic Product —*
1986 to 1988 Statistics Canada
1989 to 1991 The Conference Board of Canada
Forecast of Key Economic Indicators

Operating Deficit

The second measure of financial performance is the operating deficit or surplus for the year. The Statement of Current Revenue and Expenditure in the Public Accounts shows this amount as "Excess of Current Operating Expenditure over Revenue and Recoveries". It is the excess of the total current expenditures for all government departments, including grants and assistance and debt service costs, over the total operating revenues for the year.

The operating deficit for the year ended March 31, 1991 was $146 million, an increase of $84 million or 135% over the 1990 operating deficit.

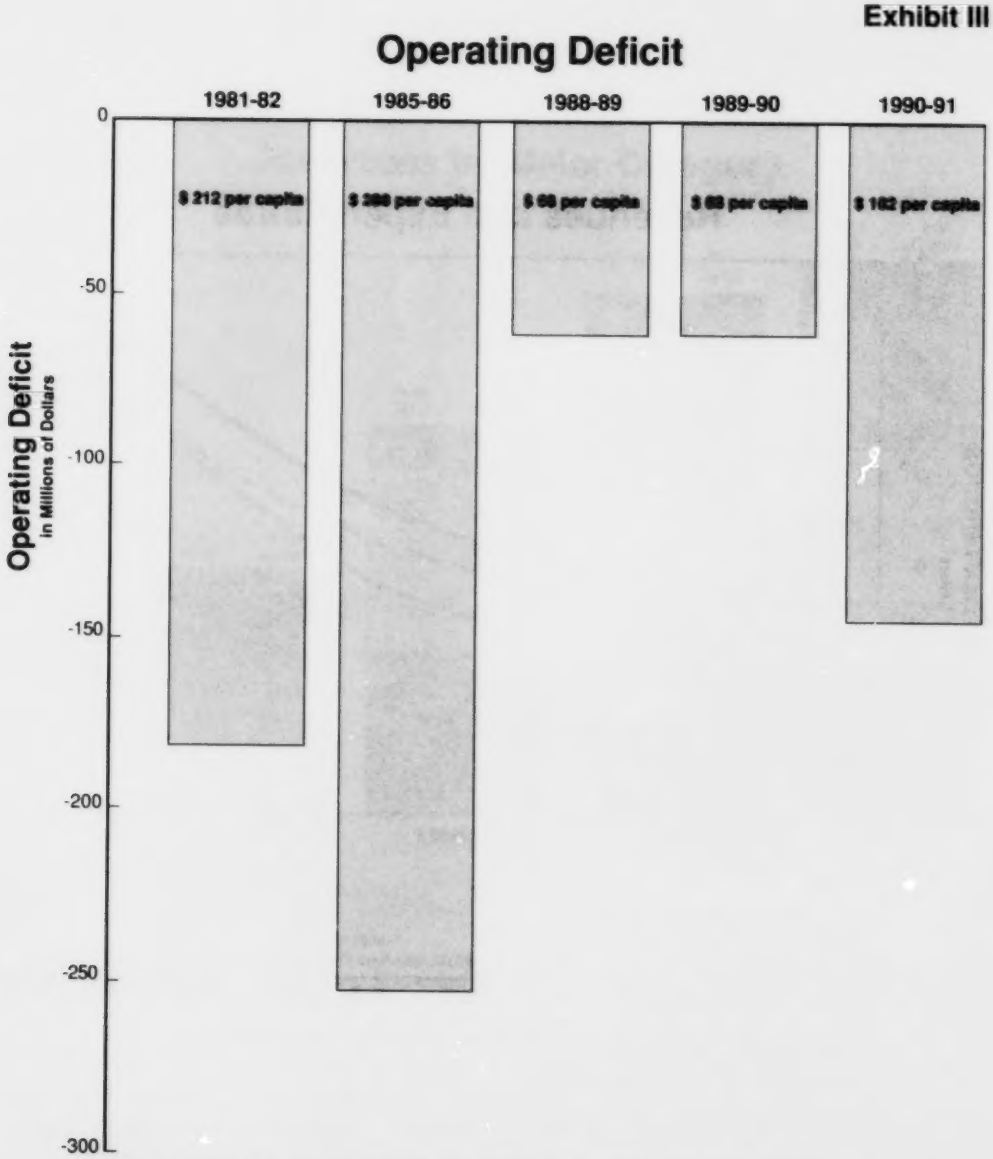
In 1990, the Government announced an operating deficit target of $27.4 million for 1990-91. The actual results for the year show that the deficit was $118 million greater than the estimate.

For 1991-92, the Government announced a target for the operating deficit of $191.8 million. There are plans to achieve a balanced budget in 1993-94.

Ongoing operating deficits have been the major factor contributing to the net debt of the Province. The Government's plans to eliminate operating deficits are commendable, but very difficult to achieve in a period of slow economic growth. However, we cannot overemphasize the necessity of continued efforts to reduce and eventually eliminate the operating deficit.

Exhibit III shows the operating deficit of the Province for selected years over the past ten years.

Exhibit III

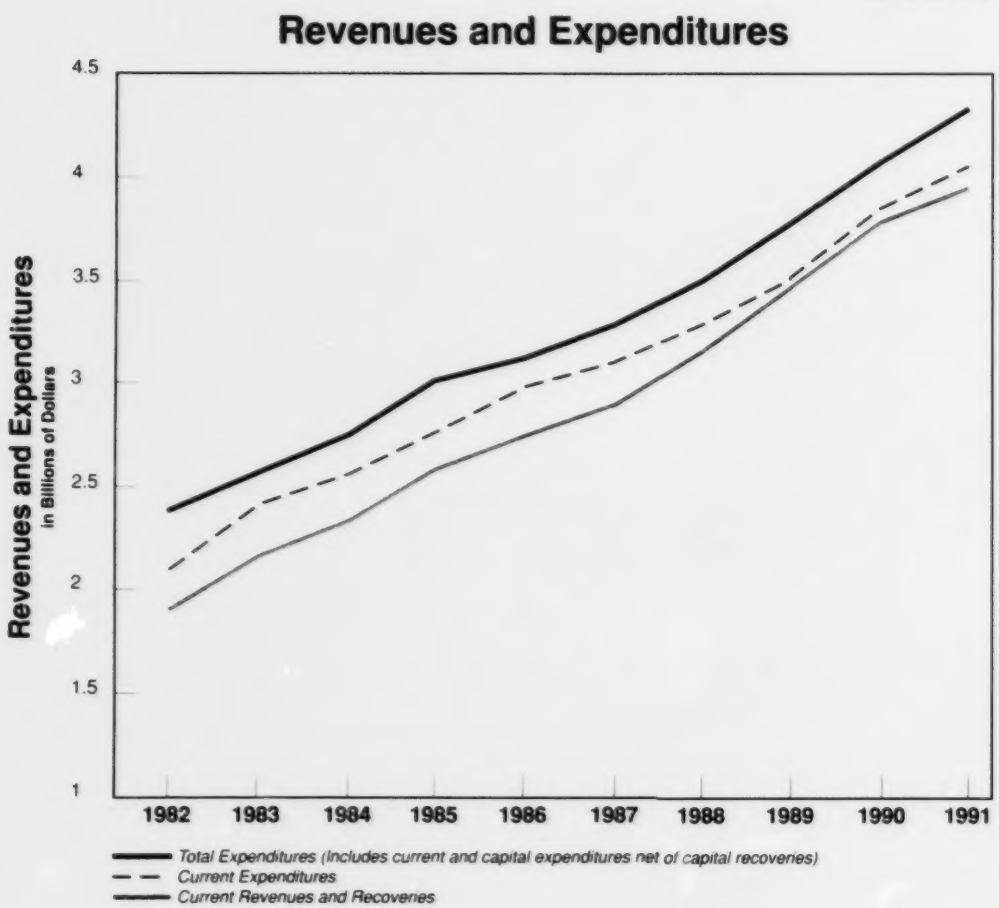


NOTE: *Operating Deficit excludes capital expenditures, sinking fund installments and serial retirements.*
Source: *Population — Statistics Canada*

The Province also incurred capital expenditures during the year. These include expenditures for highways, construction and expansion of government buildings, equipment, and grants for buildings and equipment for hospitals and other institutions. Capital expenditures are not included in the calculation of the current year's operating deficit, but they do increase the net debt. During the fiscal year ended March 31, 1991, capital expenditures of the Province were $255 million, a 25% decrease from the 1990 figure.

Exhibit IV presents the total current revenues and recoveries, the current expenditures and the total expenditures of the Province over the past ten years. This graph demonstrates that expenditures grew faster than revenues during the past year. It is important to note that the net debt of the Province will continue to increase unless current revenues and recoveries exceed total expenditures (both operating and capital).

Exhibit IV



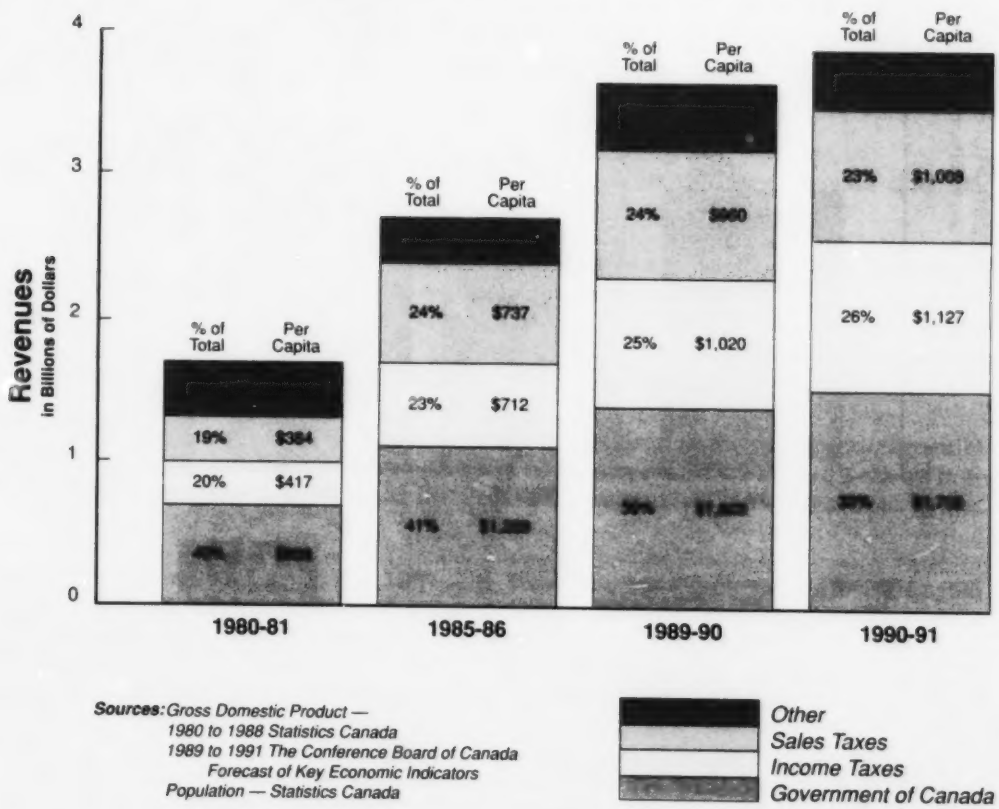
Revenues and Expenditures

To gain a better understanding of operating results it is useful to examine the trend of significant revenue and expenditure amounts. Exhibit V shows the revenues of the Province by major category for the current year, the previous year, five years ago, and ten years ago; while Exhibit VI shows total expenditures (current and capital) over the same period. Both graphs include the per capita amounts.

During the 1990-91 fiscal year, revenues increased by 5.6% over 1989-90 while operating expenditures increased by 7.5%. The increase in revenues was primarily attributable to an increase in the equalization payments received from the Federal Government, income taxes and sales taxes.

Exhibit V

Revenues by Major Category



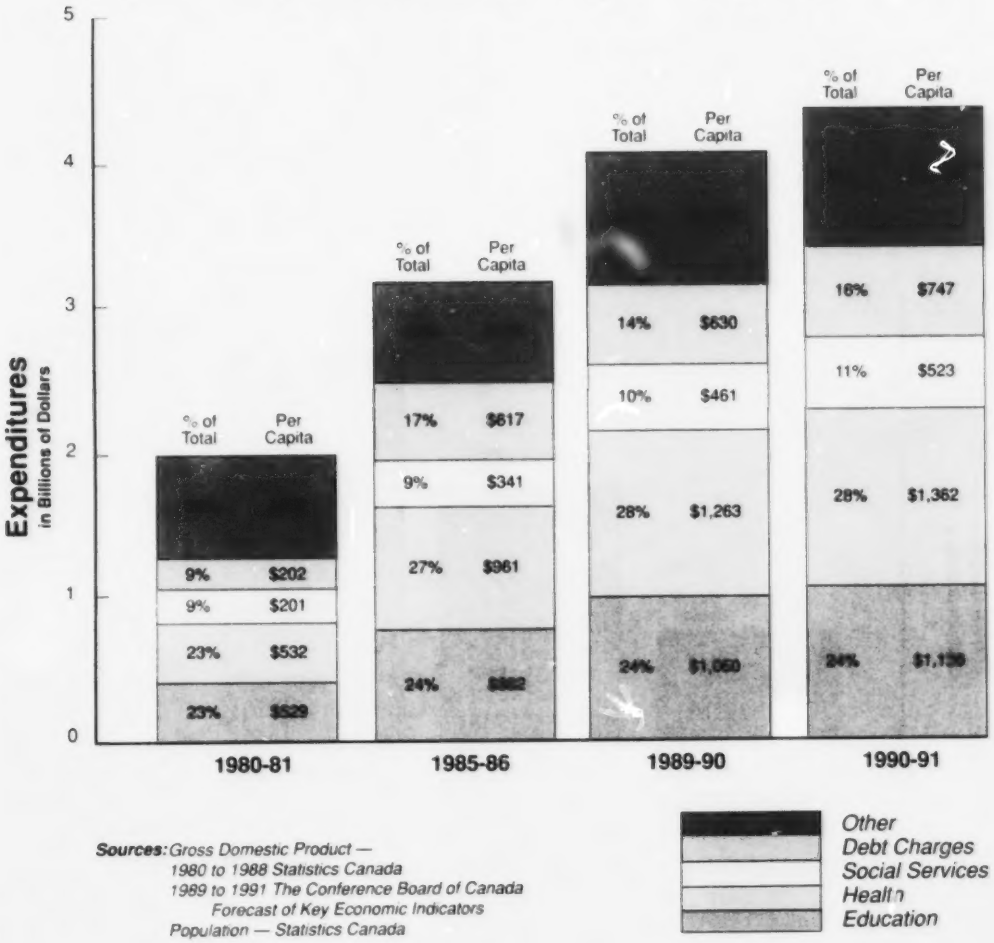
Sources: *Gross Domestic Product —*
1980 to 1988 Statistics Canada
1989 to 1991 The Conference Board of Canada
Forecast of Key Economic Indicators
Population — Statistics Canada

Exhibit V shows that revenues from Federal sources have been increasing, but at a slower rate than in the past. Total revenue from Federal sources increased by 5.5% in 1990-91. Income tax revenue in 1990-91 was 9.7% greater than in 1989-90. Sales tax revenue was estimated to increase by 10%, but the actual increase was only 4.2%.

The effect of the increasing net debt of the Province on debt servicing costs and total expenditures is apparent on Exhibit VI. Debt service costs increased by $101 million over 1989-90 and are four times the debt service charges of ten years ago.

Exhibit VI

Expenditures by Major Category



Sources: *Gross Domestic Product —*
1980 to 1988 Statistics Canada
1989 to 1991 The Conference Board of Canada
Forecast of Key Economic Indicators
Population — Statistics Canada

When debt service charges represent such a significant percentage of total revenue (17% in 1990-91), the amount of revenue available for other government services and programs is obviously reduced. In periods of slow revenue growth, like the one which we are currently experiencing, a large expenditure for debt charges seriously impedes the Government's ability to maintain necessary levels of spending in other areas. Limiting the growth of the net debt and resulting debt charges is extremely important.

The Government's Budget Address of May 14, 1991 included the following comments relating to the level of expenditures.

> *"Social programs encompassing health, education and social services have been one of the fastest-growing areas of provincial spending over the past decade. They have outpaced the growth in inflation, provincial revenues, and other program spending.*
>
> *During and immediately following the recession of the early 1980s, the province decided to incur deficits rather than dramatically reduce health, education and social service spending.*
>
> *Financing those deficits has meant increased borrowing and a significant increase in the annual cost of servicing that debt. Debt servicing costs account for 18 percent of total expenditures in 1991-92.*
>
> *The substantial increase in both debt servicing costs and social programs has meant that a decreasing share of the province's budget has been available for investment in other critical areas such as economic development, justice and the environment.*
>
> *On the program side alone, the cost of health, education and social services accounts for 74.2 percent of total program spending in this fiscal year. This compares to 58.7 percent only a decade ago.*
>
> *This shift cannot continue. We must streamline delivery systems and live within our means."*

We agree with the Government's assessment of the seriousness of the Province's financial position and the need to control expenditures tightly.

Comparison of Actual Results to Estimates

A fourth measure of fiscal performance is the comparison of the year's actual results to the Estimates for operating revenues and expenditures. This analysis shows how well the Government has followed the fiscal plan submitted to and approved by the Legislature.

For the year ended March 31, 1991, the total revenues and recoveries of $3,895 million were 2.2% ($87 million) less than the estimated figure of $3,983 million. The Estimates budgeted for an overall increase in revenues and recoveries of 8% over 1989-90. The actual increase was 5.6%. The majority of the variance was due to sales taxes which were $53 million less than the estimated figure.

The amounts which varied from the Estimates by more than 5% were revenues from sales tax (6% or $53 million below the estimate), interest revenue (12% or $9 million below the estimate), Liquor Commission revenue (15% or $13 million below the estimate), Transportation and Registry of Motor Vehicles revenue (7% or $3 million below the estimate), and other provincial revenue (10% or $16 million below the estimate).

Revenues from Federal sources were estimated to increase by 4.3% over 1989-90. The actual increase was 5.5%.

Actual operating expenditures of $4,057 million were 1.2% ($47 million) above the estimated figure of $4,010 million. The only expenditure which exceeded the approved estimates by more than 5% was Resource Development (excess of 14% or $26 million). General Government expenditures were less than the estimated figure by $10 million or 8%.

Actual capital expenditures were below the approved estimate by $11 million or 4%.

The "Additional Appropriations" article on page 41 provides further details on the comparison of actual results with the approved Estimates.

In summary, operating revenues and expenditures varied from the fiscal plan approved by the Legislature for the year. The combination of lower than anticipated revenues ($87 million), higher than anticipated expenditures ($47 million) and an unanticipated prior years' adjustment on Federal-Provincial Fiscal Arrangements of $16 million to the Province resulted in a deficit $118 million greater than estimated. Capital expenditures were $11 million below the approved Estimate.

Impact of Debt

We have commented on the magnitude of the Province's debt in previous Annual Reports. However, the issue of government debt is so important that it warrants further commentary in this Report.

During the past several years the impact of government debt has been discussed widely by the media, economists, auditors and others. There is general agreement on the need for governments to carefully monitor and control any deficit situation in order to prevent the level of debt charges from consuming an inordinate amount of government revenues.

The Province of Nova Scotia has a total debt of $6.1 billion and a net debt (after deduction of realizable assets) of $4.7 billion as shown in Exhibit I. For the 1991 fiscal year the debt charges (excluding principal repayments) paid by the Province amounted to $672 million or approximately $747 for each citizen of the Province.

Because of the size of the Province's debt, the need for a concerted effort to contain its growth is apparent. This becomes increasingly difficult in an economic environment like the one we are now experiencing. The government's ability to increase revenue by raising taxes is limited in a recession. It is also difficult to cut program spending during troubled economic times. However, we must acknowledge that reduction of the annual deficit is the only way to curb the growth of the Province's debt.

Concluding Remarks

Ideally, the ultimate objective should be to reduce the size of the Province's net debt. A reduction will not occur unless the Province's annual revenue exceeds the

total of its operating and capital expenditures. We acknowledge that this objective is not attainable in the short term due to the current economic conditions in the Province and country, and the history of operating deficits in past years.

A more realistic short-term objective is to eliminate operating deficits and move towards borrowing for capital requirements only. The Government, in its Budget Address of May 14, 1991, shows that it is aware of the need to eliminate the annual operating deficit. The following quote from the Budget Address articulates the need.

> *"It is obvious that the fiscal situation confronting the province is serious. We are committed to balancing the operating budget and to reducing overall borrowing requirements. We must achieve this commitment if we are to protect our ability to provide government programs and services in the years ahead."*
>
> *"This will not be easy, but it must be accomplished. The costs of government programs must be brought within the fiscal resources available."*

Being aware of the need to eliminate the deficit and having a multi-year plan to reach that goal is a start. Recent projections have indicated that the Government has been unable to contain the 1991-92 deficit to that originally planned. They are however endeavouring to bring the costs of programs closer to the fiscal resources available.

ADDITIONAL APPROPRIATIONS

Every year the Estimates representing the Government's spending plans are approved by the Legislature. The Estimates are summarized in the Appropriations Act, which authorizes spending amounts by program for the coming year. The Provincial Finance Act allows adjustments to these spending plans in the form of additional appropriations. Additional appropriations are not scrutinized or approved by the Legislature before they are authorized by the Governor in Council. Consequently, Government has the responsibility to ensure its original spending plans are as realistic as possible.

The Appropriations Act, 1990 contains 120 votes for current expenditures totalling $4,110 million. Forty-one of these votes required additional appropriations amounting to $77 million. This is an improvement over the previous year when 64 of 119 votes required additional appropriations amounting to $126.3 million. Additional appropriations totalling $3.3 million were authorized for three capital expenditure votes. This is also an improvement over the previous year when an additional $32.6 million was authorized for eight capital expenditure votes. Four votes required two additional appropriations. Fifteen of the 24 government departments and services required additional appropriations.

The following is a summary of additional appropriations for the last seven years.

Additional Appropriations ($ millions)

Year	Current	Capital	Total
1990-91	77.0	3.3	80.3
1989-90	126.3	32.6	158.9
1988-89	87.6	16.8	104.4
1987-88	50.4	8.4	58.8
1986-87	38.2	4.9	43.1
1985-86	113.6	2.2	15.8
1984-85	70.6	.2	70.8

Overexpenditures in the Departments of Community Services; Health and Fitness; Education; Industry, Trade and Technology; and Small Business Development accounted for 86% of the additional appropriations in 1990-91.

Two additional appropriations totalling $15.3 million for the Department of Community Services, Public Assistance vote were approved to cover rate increases and demand for services, both greater than expected. Similar situations resulted in two additional appropriations totalling $1.2 million for the Family and Children's Services vote.

The Department of Health and Fitness, Health Programs again required an additional appropriation to cover increases in salary and benefit costs for the hospitals' staff, technicians and nurses. This year the $14.8 million required was offset by $2.7 million in savings from other areas. The additional appropriation was down this year from $41 million required last year. The Health Services and Insurance Commission also required an additional appropriation of $2.5 million because utilization of services was greater than projected.

Additional appropriations totalling $13.9 million for the Department of Education were authorized. The major areas of overexpenditure were $8.8 million for the Grants and Assistance vote due to increased funding and special operating grants exceeding the Estimates; and $3.3 million for Capital Grants for emergency projects, non-budgeted repairs and renovations, and other projects.

The Department of Industry, Trade and Technology required additional appropriations of $5.9 million and $6.7 million. The $6.7 million was predominately to cover Nova Scotia Business Capital Corporation interest on capital advances, and provisions for losses on advances. A net $5.9 million (after offset of $9.9 million in savings in other areas) was also required for provision for losses on capital advances under the General Administration vote.

The Department of Small Business Development, Other Agencies, required an additional $11.4 million for increases in the provision for losses on doubtful accounts under the Small Business Development Fund, Industrial Loan Fund, and the Venture Capital Act.

Again this year we draw attention to the delay in approving additional appropriations. In 41 of the 48 instances where additional appropriations were required, the overexpenditure occurred before the date that the additional appropriation was authorized. These 41 additional appropriations totalled $73.1 million and the interval between the time of the overexpenditure and approval of the additional appropriation averaged 167 days (within a range of 2 to 359 days).

Thirty-two additional appropriations, totalling $49.5 million, were approved in the month of September – over five months after the end of the fiscal year.

The following schedule provides further information on additional appropriations approved for the March 31, 1991 fiscal year. It lists those for $50,000 or greater, totalling $79.9 million or 99.5% of the amount of $80.3 million approved for the year. In addition to showing the approval date, this schedule also reflects the actual amount spent.

Appropriations Greater Than $50,000
For The Fiscal Year Ended March 31, 1991

Department	Date Approved	Authorized	Expended
Advanced Education and Job Training			
Assistance to Universities	Sept.3/91	$427,827	$427,827
Agriculture and Marketing			
General Administration	Sept.18/90	2,834,600	2,834,600
General Administration	Jan. 15/91	1,354,000	185,149
Attorney General			
General Administration	Apr. 23/91	304,100	112,680
Law Administration	Apr. 23/91	118,000	17,744
Community Services			
Family and Children's Services	Apr. 23/91	914,800	914,800
Family and Children's Services	Sept.24/91	293,323	293,323
Public Assistance	Apr. 23/91	14,818,400	14,818,400
Public Assistance	Sept.14/91	458,625	458,625
Education			
Nova Scotia Teachers' College and Residence	Sept.12/91	91,600	91,550
Grants and Assistance	Sept.12/91	8,835,800	8,835,778
Teachers' Pensions	Sept.12/91	293,900	293,837
Curriculum Development	Sept.12/91	1,421,100	1,421,009
Capital Grants	Sept.24/91	3,241,900	3,241,844
Environment			
Capital Grants	Sept.24/91	54,606	54,606
Health and Fitness			
Health Services and Insurance Commission	Sept.24/91	2,487,600	2,487,536
Health Programs	Sept.24/91	12,092,000	12,086,627

Department	Date Approved	Authorized	Expended
Industry, Trade and Technology			
General Administration	Sept.24/91	5,937,450	5,937,450
Other Agencies	Oct. 8/91	6,712,834	6,712,834
Municipal Affairs			
Finance and Advisory Services	Apr. 2/91	300,000	262,986
Public Service			
Nova Scotia Sport and Recreation Commission	May 7/91	50,000	–
Public Archives of Nova Scotia	May 7/91	64,000	64,000
Workers' Compensation Board	June 25/91	1,297,600	1,297,551
Motor Carrier Act – Administration	July 2/91	80,300	52,337
Legislative Expenses	Sept.24/91	55,900	55,865
Art Gallery of Nova Scotia	Sept.24/91	78,300	78,300
Protocol Office	Sept.24/91	229,400	229,345
Election Expenses	Sept.24/91	91,800	91,797
Small Business Development			
Other Agencies	Sept.24/91	11,357,000	11,356,912
Solicitor General			
General Administration	Sept.24/91	499,919	499,919
Tourism and Culture			
Departmental Operations	Mar. 26/91	1,906,000	1,906,000
Transportation and Communications			
Maintenance, Transportation Systems	Sept.24/91	1,201,789	1,201,789
		$79,904,473	$78,323,020

I am required under Section 9(1)(f) of the Auditor General Act to call attention in my Annual Report to every case in which *"a special warrant made pursuant to the provisions of the Provincial Finance Act authorized the payment of money"*. The Provincial Finance Act allows the Governor in Council to approve a Special Warrant, when the Legislature is not in session, which authorizes *"an expenditure which was not provided for by the Legislature"* and *"is urgently and immediately required for the public good"*.

On July 5, 1990, a Special Warrant was approved authorizing an expenditure of $715,699 for compensation relating to the wrongful conviction and imprisonment of Donald Marshall, Jr.

On July 24, 1990, a Special Warrant was approved authorizing an expenditure of $4,500,000 for compensation relating to the financial failure of First Investors Corporation Ltd.

* * * * * *

CROWN AGENCIES AND CORPORATIONS

INTRODUCTION

There are 19 crown agencies and corporations, excluding hospitals, whose annual audits are performed by chartered accountants other than the Auditor General. A schedule of these is included in Appendix IV.

Under Section 17 of the Auditor General Act we are furnished annually with the audited financial statements and all audit reports prepared by the auditors of these agencies and corporations. The Auditor General may conduct such additional examination and investigation of the records and operations of the agencies as are deemed necessary.

Examinations or investigations which our Office performs under Section 17 have different objectives and hence a different scope of review than those undertaken by the private sector auditors. We do not attempt to duplicate their work regarding an audit opinion on the entity's annual financial statements. The focus of our review is on broader issues such as the management and organization of the enterprise, and the manner in which it is meeting its legislated or otherwise determined objectives. The results of these reviews are reported to the management and Boards of the corporations and agencies, and an abbreviated report is included in our Annual Report.

In 1985 a five-year schedule was prepared to ensure at least one audit review by our Office in each of those crown agencies and corporations where we are not the appointed auditors. These reviews have been completed and a second cycle has commenced.

During the 1991 audit year, staff conducted or finalized reviews at the Art Gallery of Nova Scotia, Bedford Waterfront Development Corporation, Nova Scotia Resources Limited, Schooner Bluenose Foundation, and Tidal Power Corporation. A brief follow-up review was also conducted pertaining to our 1989 audit of the Halifax-Dartmouth Bridge Commission. Articles on each of these assignments are included in this section, as well as an article on our review of the audit reports prepared by the financial statement auditors of all the crown agencies and corporations.

REVIEW OF AUDITORS' REPORTS

Section 17 of the Auditor General Act requires auditors of all crown agencies and corporations to provide this Office annually with copies of the audited financial statements and all reports prepared pertaining to these audits. We reviewed the financial statements and reports received, being principally interested in whether:

- there was any indication of inadequate financial controls and records mentioned in letters to management or indicated by reservations of audit opinion on the financial statements;

- there was timely preparation of annual financial statements, and the audits of them;

- there were notes to the financial statements outlining the legislative mandate of the entity; and

- there was disclosure of the entity's audited financial statements, preferably in the Public Accounts.

The following observations result from our examination of the financial statements and auditors' reports.

Financial Controls and Records

As in the prior year, the audits of the Art Gallery of Nova Scotia and the Schooner Bluenose Foundation contained reservations of audit opinion relating to donation receipts.

This is a standard type of reservation which may be found in the auditors' report for organizations receiving a significant portion of their revenues through cash donations. The completeness of such donations is not susceptible to conclusive audit verification. The resulting weakness cannot be overcome cost-effectively.

Letters to management indicate weaknesses in internal control in certain corporations, most not serious enough to include in this report. The following, noted in letters to management at the Nova Scotia Power Corporation and at the Nova Scotia Liquor Commission, however, seem appropriate to report.

- Internal control weaknesses or lapses in control at the Nova Scotia Power Corporation resulted in a $1.2 million supplier's invoice being paid twice, and a $300,000 overpayment to Revenue Canada Taxation. These amounts were recovered through adjustments to subsequent payments.

- Control weaknesses were reported at the Nova Scotia Liquor Commission relating to computer systems security. Specifically, improvements were recommended for password access controls and disaster recovery planning.

Our 1990 Annual Report noted that, in their letter to management for the December 31, 1988 fiscal year, the auditors of the Workers' Compensation Board of Nova Scotia indicated some concern over the actuarial assumptions used to value the Board's unfunded pension liability. The funds for disability pensions were determined to be inadequate to provide for the escalation of pension payments by an amount of approximately $72.7 million. This unfunded liability was reported in the notes to the financial statements for the year ended December 31, 1989.

The Board acquired the services of new actuaries in 1990. Based on an actuarial assessment, these actuaries determined that the Board has an unfunded liability of $216.3 million at December 31, 1990. The increase over the previously reported unfunded liability of $72.7 is analyzed in the following schedule.

Disability Pensions ($ millions)
Unfunded Liability

	Current Awards Including Indexing	Future Permanent Awards	Total
Balance Reported – December 31, 1989	$ 72.7	$ –	$ 72.7
Adjustment for amounts excluded from previous valuation	21.4	67.0	88.4
Adjusted balance – December 31, 1989	94.1	67.0	161.1
Increase since previous valuation	39.4	15.8	55.2
Balance Reported – December 31, 1990	$133.5	$82.8	$216.3

Annual appropriations to the Board's Reserve Funds are required to provide for future compensation commitments. However, over the past number of years, net earnings (assessments plus investment revenue, less compensation claims and administration expenses) have been insufficient to allow adequate appropriations to Reserve Funds. Management has suggested significant increases in compensation claims and medical aid as being the predominant reasons for the shortfall.

The Board is legislated to be a self-supporting entity and the options available to it are limited. Its duties are to collect assessments from employers, based on their accident cost experience, and to pay injured workers benefits at levels determined by legislation. An unfunded liability can only be reduced in future years through increased assessments and investment revenue, decreased compensation claims and expenses, or some combination thereof. We have been informed that the Board is developing strategies to address these issues prior to consultations with employer and employee groups.

Timeliness of Statement Presentation

We consider preparation, audit and release of financial statements within six months of year end to be satisfactory. All crown agencies and corporations achieved this with the exception of Schooner Bluenose Foundation, Upper Clements Family Theme Park and Workers' Compensation Board. They issued their financial statements 7, 9 and 11 months, respectively, following their year-ends.

Legislative Mandate

It is important for the reader of financial statements to have an awareness of the legislative mandate under which crown corporations and agencies operate. This is most conveniently communicated as a note to the financial statements but can be shown in other locations of an annual report. It is recommended that all crown corporations and agencies include such a note if they have not disclosed their legislative mandate elsewhere in their annual report.

Although there has been a favourable response to our previous suggestions for disclosure of legislative mandates, three entities continue to exclude this information from their financial statements and/or annual reports. They are Nova Scotia

Rehabilitation Centre Corporation, Schooner Bluenose Foundation, and Upper Clements Family Theme Park Limited.

Reporting

Previous Annual Reports have noted that the Public Accounts of Nova Scotia should come as close as possible to presenting full disclosure of the financial position and operating results of all entities which are Government controlled.

The financial statements for the Art Gallery of Nova Scotia and Halifax Harbour Cleanup Incorporated have not been included in the March 31, 1991 Public Accounts and should be in future years.

The financial statements of three entities, although not in the Public Accounts, are available to the public through wide distribution or tabling in the Legislature. These are the Council of Maritime Premiers, a joint operation with the other Maritime Provinces; the Halifax-Dartmouth Bridge Commission; and the Workers' Compensation Board of Nova Scotia.

Concluding Remarks

Improvements have been noted in the accounting and reporting of crown corporations and agencies over recent years. In order to maintain this trend, we reiterate the suggestion of prior years for legislation that would provide for accountability of crown corporations to the Legislative Assembly.

This legislation would help to achieve uniformity in disclosure and improve the understanding of authority and responsibility assigned to Board members of these corporations. The legislation should also define what constitutes an agency or corporation of the crown. At present there are several definitions for crown agencies and corporations. For example, the Provincial Finance Act and Auditor General Act contain somewhat different definitions. This situation has created some problems in determining the status of certain entities. Definitions in all legislation should be consistent.

ART GALLERY OF NOVA SCOTIA

Background

The mandate of the Art Gallery of Nova Scotia includes the collection, classification, preservation and exhibition of works of art, as well as art education.

In 1990-91, the operating expenditures of the Gallery totalled $1.7 million, of which $1.3 million (77%) related to salaries, utilities, environment control and security.

The principal revenue for the Gallery is the annual operating grant from the Province of Nova Scotia (1991 – $1.2 million). However, the Gallery has other revenues including donations, memberships and entrance fees.

Since our last review of the Art Gallery in 1988 it has moved to the recently restored Dominion Building, a historic landmark in downtown Halifax. The new location opened on November 1, 1988, but final completion of the restoration was in 1991, at a total cost of $14.2 million.

We also conducted a review in 1991 of the Department of Government Services' project management function related to the restoration and renovation of the Dominion Building. The results of that review are reported in a separate article on page 55 of this Report.

Results in Brief

The following are the principal observations and conclusions resulting from our review of the Art Gallery.

- Financial management policies and procedures are reasonably well designed and operating properly. The Board of Governors should become more involved in the budgetary process.
- The move to a restored historic building has provided improved security and environmental control over works of art.
- The final cost of restoring the art gallery building was $14.2 million, with $4.0 million coming from government grants, $8.4 million from the Department of Government Services' capital budget and $1.8 million from the Gallery's capital campaign.

Audit Scope

In the fall of 1991 we conducted a review of selected operations of the Art Gallery of Nova Scotia. The objectives of our review were to assess:

- the Gallery's financial planning, budgeting, accounting, reporting and monitoring processes;
- the processes for acquiring, controlling and de-accessioning works of art;
- the policies and procedures to protect works of art against theft, purposeful damage and fire;
- the policies and procedures to protect works of art against deterioration and accidental damage; and
- the management of the Gallery's building campaign.

Principal Findings

Financial Management

We concluded that the Gallery's financial management processes are reasonably well designed and operating properly, but we did make some suggestions for improvement.

The Gallery follows standard government procedures for many of its financial operations, but there are processes related to budgeting, banking, disbursements, investments and financial reporting that are unique to the Gallery and for which there are no documented policies and procedures.

Many of the committees of the Board of Governors did not have terms of reference. We suggested the Board become more involved in the annual budget process by providing guidance on budget goals and priorities, and by formally approving the budget in the minutes.

The microcomputer-based accounting system is adequate for the needs of the Gallery, and monthly financial reporting is timely. Comprehensive financial and non-financial performance reports are presented to the Board regularly, along with verbal analyses by the Treasurer. We made suggestions for improving the disclosures in the financial statements.

A five-year plan was prepared in 1989. We commended the Gallery for conducting long-range planning, and suggested that the plan be updated periodically and include the long-range capital requirements and plans of the Gallery.

Acquisition, Control and De-accession of Art

At March 31, 1991 the Gallery had more than 2,000 works in its collection. While emphasis is placed on artists associated with Nova Scotia, works of significance produced by regional, Canadian and international artists are considered.

We concluded that Gallery processes in these areas are generally adequate, but noted some areas that could be strengthened.

All works of art considered for acquisition are brought before the Acquisition Committee. The Committee reviews the background of each work and its artist, and uses acquisition criteria to decide whether to acquire it. We found that the reviews and the results of voting on art acquisitions are not fully documented, and reporting to the Board on approved acquisitions is not timely.

The de-accession of art must be approved by the Board of Governors.

The Gallery is linked to the Canadian Heritage Information Network, a computer-based national inventory of Canada's major museum and gallery collections. Control is further strengthened by internal inventory records which are verified by an annual inventory count. However, we did note that inventory counts are performed by a person who is also responsible for handling art and recording works in the inventory records. We suggested that a person independent of these duties be assigned the inventory count responsibility.

We also reviewed the recording of art on loan from other galleries or individuals and found it deficient. We suggested that a log be maintained to record the receipt, storage, exhibition and final return or acquisition of all art on loan.

Security

In a prior audit of the Gallery we reported a number of findings concerning security over art. Many of these were the result of inadequate building facilities. The Gallery's move to its new location resulted in significant improvements in security.

The Gallery uses security and safekeeping standards adopted by most of the major museums and galleries across Canada. These include:

- electronic security systems monitored around the clock;
- back-up power supplies;
- monitoring and patrols by security personnel;
- controlled access to the building;
- detailed documented instructions and procedures for security; and
- a sophisticated system to detect and extinguish fires.

The Gallery, in conjunction with the Department of Government Services, arranges for insurance on all works of art, including works off the premises and works on loan to the Gallery. We were unable to determine whether the total insurance coverage approximates the total value of the art since insurance is calculated by taking the previous year's balance, adding 10%, and increasing it for the market value of all acquisitions during the year. There is no record of the total market value of the collections. We were informed that appraising works of art is costly, and that most art galleries appraise art only upon acquisition.

Care of Works of Art

We concluded that, while the Gallery follows policies and procedures common to most art galleries and art is generally well cared for, there are deficiencies due to the limitations of the Gallery building.

The Art Gallery follows the policies and procedures of the National Museum of Canada. The Gallery has detailed records on the condition of all works of art. These records are updated whenever a work is acquired, placed on exhibition, loaned, or has conservation work done. As well, a conservator informally examines all work on display once a week, and during the annual inventory count.

The building has many environmental controls to protect sensitive works of art. Temperature and humidity levels are controlled and works are protected from excessive or harmful light. There are limitations however, particularly in receiving and storage areas, and we were informed that the building does not have sufficient long-term permanent storage for art collections. The Gallery has identified and is

pursuing some short-term solutions, but there are no long-term plans for storage needs.

Building Campaign

The cost of constructing a new home for the Art Gallery was initially estimated at $8.0 million. The Federal and Provincial governments each committed $2.0 million to the project, and the Gallery undertook to raise the remaining $4.0 million by way of a capital campaign. The original plan of constructing a new gallery building was replaced by the decision to restore the Dominion Building.

The final cost of the restoration project was $14.2 million with $1.8 million, of $3.1 million pledged, coming from the capital campaign. The remainder was funded by government grants of $4.0 million and $8.4 million from the Department of Government Services' capital budget.

The planning for the campaign was thorough, and included a study by an independent fund-raising consultant to determine campaign viability, goals, responsibilities, organization, and costs. Budgets were prepared for the campaign and monthly financial reports were compared to the budgets. The campaign was controlled and monitored by a campaign committee, and regular progress reports were made to the Gallery's Board.

We reviewed the financial statements for the campaign and found that campaign pledges received were being capitalized on the balance sheet as building costs. We noted that the description was insufficient to indicate that only the funds that came through the campaign had been capitalized, not the total cost of restoring the Dominion Building which was substantially higher.

The Gallery has not formally reported upon the complete cost of the building project and accordingly how the campaign money was spent.

Concluding Remarks

The new home of the Art Gallery, a restored historic building, has provided security and environmental controls lacking or not possible in its former locations. However, limitations in the new building hinder the level of care given to art.

DEPARTMENT OF GOVERNMENT SERVICES
RENOVATION OF THE ART GALLERY BUILDING

Background

In 1984 a building lot on the Halifax waterfront was offered by the Province as the site of the new home of the Art Gallery of Nova Scotia. The cost was estimated at $8.0 million, to be funded by equal Federal and Provincial government grants of $2.0 million each, with the remaining $4.0 million to be raised by a capital campaign managed by the Gallery.

In the spring of 1985 the Gallery was informed that the waterfront site was no longer available, and the Dominion Building, an historic site in downtown Halifax, was offered in its place. The waterfront lot of land was sold to a company for the purpose of constructing office facilities. The Dominion Building was granted by the Federal government to the Province with the major condition that the Building be fully restored by the Province.

The responsibility of restoring and renovating the Dominion Building was assigned to the Department of Government Services. While the Department retained the principal role of administering and controlling the project, the detailed project management duties for all but the stonework phase of the project were contracted to an external construction management consultant.

The project consisted of five major phases: interior demolition, Cheapside construction, interior restoration, exterior restoration, and furniture and fixture acquisition. The project began in June 1986. The official opening of the new Gallery to the public was November 1, 1988, and the final holdbacks on the project were released in June 1991.

The total cost of the restoration and renovation project was $14.2 million. This was funded by government grants of $4.0 million, $1.8 million from the Art Gallery's Building Campaign and $8.4 million from Government Services' capital budget.

Management of the Gallery's Building Campaign was reviewed by this Office as part of our 1991 audit of the Gallery and is reported upon on page 55 of this Report.

Results in Brief

The following are the principal observations and conclusions resulting from our review.

- Roles, responsibilities and accountabilities for the project were clearly defined and documented. Policies and procedures were established, but were not fully documented.

- The budgeting for the project was inadequate. The monitoring and reporting for the project were adequate in terms of progress toward completion, but there was no analysis of the project's cost to date with comparison to estimated costs.

- There was adequate tendering for most phases of the project. However, we were not able to form an opinion concerning the reasonableness of the $5.1 million paid for the exterior restoration phase because of inadequate support for the contents of the contract in files of the Department of Government Services.

- A post-implementation review was not conducted. The final total cost of the project was not accumulated and reported by the Department.

Audit Scope

The objective of our review was to assess the project management function related to the restoration and renovation of the new home for the Art Gallery of Nova Scotia.

The review encompassed the complete term of the project, from initial planning to final payment. Our observations and conclusions do not necessarily apply to other capital projects managed by the Department.

The following general criteria were used in our review to assess project management for this capital project.

- Roles, responsibilities and accountabilities should be defined and documented.
- Policies and procedures relating to the management of the project should be documented and communicated to all parties involved.
- The project should be adequately planned.
- There should be adequate budgeting, tendering and monitoring of contracts.
- Project progress and costs should be reported accurately on a timely basis.
- A post-implementation review should be conducted at the end of the project.

Principal Findings

Roles and Responsibilities

Roles, responsibilities and accountabilities were clearly established in the proposals from and contracts with the various consultants and contractors. As well, approval requirements, authority limits, tendering responsibilities and control of change orders were well defined within the Department of Government Services.

There was no contract, and accordingly no documented responsibilities, for the furniture and equipment phase of the project which was conducted by the external project manager.

The Art Gallery and the Department of Tourism and Culture were involved in the planning stages, but their roles and responsibilities were not defined in writing.

Policies and Procedures

According to Government Services' management, policies and procedures for planning, budgeting, monitoring and control of capital projects used by the Department are normal for the construction industry. However, except for policies related to tendering and change orders, these policies and procedures are not documented.

Planning

Most of the detailed planning for the project was the responsibility of the external project manager. He handled project scheduling, dealt with the architect and performed many other planning duties. He was not involved with the exterior restoration phase of the project. The designing and planning of the building renovation also involved input from the Art Gallery.

Life-cycle costs for the building, such as heat, maintenance and security, were not formally considered in the planning of the project. The Department has informed us that, due to the large number of construction projects Government Services is involved with, the Department studies the cost and performance of alternative designs, materials and equipment independent of any project, and applies the findings to all relevant projects.

Budgeting, Tendering and Monitoring

A budget totalling $8.0 million was prepared for the initially proposed waterfront project. This project was cancelled and the renovation of the Dominion Building was accepted as an alternative. A new budget, totalling $13 million, was not prepared until a year into the project. Further, the new budget did not include details for its $450,000 estimate for furniture and equipment. This phase of the project was completed at a cost of approximately $950,000.

At no stage in the project were the actual costs of the project reported and compared to budget, or used to revise the existing budget to reflect significant changes in the project plans. Even at the end of the project there was no final accounting of the cost. The total project cost of $14.2 million was determined by our Office by totalling project accounting records for a number of years.

There was adequate tendering, including the selection of the lowest bidder, during most phases of the project. However, there were two notable exceptions. The external project manager was hired without a competitive bid process. We were informed this is normal practice for the Department when hiring such consultants. As well, the contractor that repaired and restored the exterior stone surfaces of the building was selected without tender.

The exterior restoration was not tendered because of the specialized nature of the work and the absence of workers in the local area that have the requisite training and skills. Accordingly, the government assisted in establishing a company to introduce this specialized trade to the local area.

There was inadequate documentation in departmental files to support the $5.1 million contract for exterior restoration. We could not determine the reason for certain charges and how they were calculated. Accordingly, we were unable to form an opinion concerning the reasonableness of the contract, and whether there was due regard for economy in its negotiation.

There was adequate control over the payment of progress claims. The Department had all such claims reviewed by the project manager and had the percentage of completion certified by the architects before claims were paid.

There was inadequate control over payments to the stonework contractor because they were based on a time schedule rather than percentage of completion. Accordingly, there was no formal monitoring of progress except at the end of major sections of the exterior restoration phase, and progress payments were not based on the amount of work performed to date.

Reporting

The project manager provided monthly progress reports to the Department on a timely basis. As mentioned above, these reports did not always account for project costs. Architects were hired to examine and report on the exterior stone restoration. Their reports mainly addressed quality of work and did not discuss schedules or costs. A post-implementation review was not conducted for this project.

Concluding Remarks

In general, we feel there were weaknesses in the financial aspects of the project's planning and monitoring. This was evident from the timing of the revised project budget and the lack of monitoring of costs in comparison to budget.

We were unable to determine if there was due regard for economy in the conduct of the exterior restoration phase because there was inadequate support in the files of the Department of Government Services for the $5.1 million contract.

BEDFORD WATERFRONT DEVELOPMENT CORPORATION

Background

A Task Force was established in 1981 to investigate the feasibility of a marine park on the Bedford Basin, and to look into the problem of siltation and dredging of the Bedford Basin around the Sackville River. In 1983 the Task Force recommended a development proposal that included removal of the silt from the mouth of the River and using it to infill a portion of the Bedford Basin.

That same year the Bedford Waterfront Development Corporation (BWDC) was incorporated under the Bedford Waterfront Development Corporation Act. The objects of the Corporation are to investigate the feasibility of developing the waterfront of Bedford, establish a marine park, and manage its development. The Mill Cove area of the Basin was found to be the most suitable area for the development.

The Corporation planned to develop two linked sites on Bedford's waterfront. The Board, in consultation with the Province, later decided to conduct the development in two phases. Funds expended to date have primarily been associated with Phase I. At the completion of Phase I a total of 23 acres of land will have been reclaimed,

of which 12 acres will be available for sale and development. The remaining acreage, consisting of developed public land and infrastructure, will be provided to the Town of Bedford under a 1988 agreement with the Town.

The Corporation received commitments for capital grants of $5 million from the Federal government (through ACOA), $4.3 million from the Province, and $1 million from the Town of Bedford. Capital grants received to March 31, 1991 totalled approximately $3.9 million. During 1991-92, to the time of writing this article, an additional amount of $6.1 million was received.

The remainder of the financing for the project has been through bank promissory notes and demand loans. These borrowings are guaranteed by the Province and the guarantee is secured by a debenture on the lands of the Corporation. The guarantee was initially provided for $10 million in July 1988, and was increased to a maximum of $12.5 million in June 1990.

The BWDC has a nine-member Board of Directors, six of whom are appointed by the Province. The other three are appointed by the Province upon nomination by the Town of Bedford. BWDC presently has four full-time employees.

In December 1991 we completed a review of certain areas of BWDC's operations under Section 17 of the Auditor General Act. This was our first review of the Corporation.

Results in Brief

The following are the principal observations and conclusions resulting from our examination.

- The Board of Directors is kept well-informed of the operations of the Corporation. It is provided with adequate information to monitor both capital project costs and annual operating costs.

- The government, through the Department of Industry, Trade and Technology, receives adequate information to enable it to assess whether its investment in the project is being managed properly.

- The Legislature is not specifically provided with regular information on the activities of the Corporation, although in June 1991 the Corporation's audited financial statements for the past three years were sent to the Legislative Library. The Corporation's act specifies that it is not a crown corporation. Its financial statements are not included in the Public Accounts or tabled in the Legislature.

- Our conclusion is that the financial management process at BWDC is being performed well. Budgets are prepared for the operations of the Corporation and for its capital project. The capital project budget is updated when significant changes occur.

- The project management system for BWDC's capital project is adequate.

- The solicitation process for development proposals is open to all interested parties and there is an appropriate process for evaluating the proposals.

- The disclosure and presentation of certain information on the Corporation's annual audited financial statements should be expanded.

- The Province will likely have to either honour the $12.5 million guarantee of BWDC debt or provide additional funding to BWDC.

Audit Scope

The objectives of our audit were to review:

- the Corporation's planning function including projections of future costs and revenues;

- the project management systems used;

- the internal and external accountability framework for the Corporation;

- the Corporation's financial position and operating results to date;

- the policies and procedures in certain key areas, including financial management, purchasing, awarding of contracts, and operating costs; and

- the process for soliciting and evaluating proposals from developers.

Principal Findings

Planning and Project Management

The Corporation has a detailed formal plan for the project.

We noted that, while the Board receives various reports at its monthly meetings, some improvements could be made to help the Board better monitor the project. These are described in the Financial Management section of this article (page 62).

We also noted that the Board controls all aspects of the project. Examples of this control include Board approval of tendering and awarding of all construction contracts, and the selection of consultants. The Board also approves the annual operating budget and the periodic capital projections.

Awarding of Contracts

All construction contracts which we reviewed were awarded as the result of public tender calls. Consultants were selected by the Corporation because of their expertise in certain areas and were requested to submit proposals before agreements were signed.

The Corporation uses appropriate contracts and agreements when dealing with contractors and consultants. These documents specify the nature of the work, payment terms and deadlines.

Policies and procedures have been informally defined and communicated to staff for certain aspects of purchasing goods and services, including spending limits and tendering of contracts. Conflict of interest guidelines have been established for the Board, but these are in a Directors' Handbook which has yet to be approved. There are no conflict of interest guidelines for staff. In addition, while all major contracts and agreements associated with Phase I of the project have at this date been awarded, there are no formal policies and procedures related to tender calls, or when competitive quotes should be obtained.

Accountability

Although the internal accountability at the Corporation is adequate, we have recommended ways to improve certain aspects of it.

The Board has a complex committee structure. We have suggested certain refinements, including more regular written reports from committees to the Board and establishment of a meeting schedule for the committees, to make monthly reporting more timely and complete. The Corporation should also review the By-laws it recently adopted to ensure consistency with existing legislation.

The accountability of the Corporation to the government is adequate. The Department of Industry, Trade and Technology receives the annual operating budget of the Corporation, as well as the capital budget and periodic revisions to it. The Department also receives a copy of the monthly financial statements presented to the Board, and the supporting general ledger. In addition, the Corporation provides the Department with information on significant matters as required.

The BWDC Act specifies that it is not a crown corporation, but all Board members are appointed by the Province, which is characteristic of a crown corporation. Although in June 1991 the Corporation's audited financial statements for the past three years were provided to the Legislative Library, its financial statements are not included in the Public Accounts or tabled in the Legislature. Annual financial statements and an annual report for crown corporations are usually provided to the Legislature. This information should also be provided for BWDC, although there currently is no legal requirement to do so.

Financial Management

We have concluded that the financial management system is providing information to management and the Board for decision-making and control of the Corporation's activities. The information presented in the monthly financial statements for variance analysis should be improved. Currently, actual capital costs are compared monthly to the most recently revised capital budget. The actual capital costs to date should also be compared to the original capital budget to provide a better picture of budget variances. Any revisions to the most recently approved capital budget appearing on these monthly financial statements should be approved by the Property/Finance Committee of the Board.

The Board, however, believes that it is currently receiving adequate information for its purposes. The Corporation does not believe that comparison of actual costs to the original capital budget on a monthly basis is necessary for project management.

The Board should provide documented guidelines for the preparation of both the capital and the annual operating budgets. Both the capital budget and the operating budget should be reviewed, approved and recommended to the Board by the Property/Finance Committee and this should be documented.

The Corporation draws down its line of credit at the bank at the beginning of the year for the amount of its annual operating budget. The amount is then deposited into an operating bank account which earns interest, but at a lesser rate than that being paid on the line of credit. The Corporation should review this policy due to the interest costs associated with the transfer.

The Board has established some policies and procedures in the financial management area. These are expressed in various minutes, but not in one document. The Board should establish spending limits for management for overexpenditures of both the capital and the operating budgets.

Operating Costs

We concluded that controls in this area should be improved by documenting policies and procedures to ensure consistent treatment of similar transactions.

Expenses related to the Board of Directors of BWDC for the year ended March 31, 1990 were $146,190. This was reduced to $56,967 for the year ended March 31, 1991.

Solicitation and Evaluation of Development Proposals

We concluded that the solicitation process for development proposals is open to all interested parties. There is a formal process in place for the evaluation of proposals including comparing proposals to criteria established by the Corporation.

Funding from the Province

In 1987 Executive Council authorized a $4 million Provincial contribution to the BWDC to be paid over four years. In addition, the Province has provided another $.3 million of capital grants and annual operating grants through the Department of Industry, Trade and Technology (ITT). The 1991 operating grant was $100,000.

In 1988 Executive Council authorized a $10 million guarantee of BWDC debt through the Industrial Expansion Fund. The support for the Report and Recommendation to Executive Council included an analysis of Projected Construction and Related Costs, dated July 26, 1988, compiled by BWDC's external auditor.

The projected costs included in this compilation were based on preliminary engineering estimates of costs before construction contracts were tendered. The preliminary cost estimates did not include any provision for ongoing operating costs of the Corporation.

These preliminary estimates showed a projected deficiency in funding of $.3 million at the completion of the project. It was understood that these were preliminary

estimates and the guarantee was to provide interim financing for the project. Based on the information available from ITT, the government believed that the $10 million guarantee would be more than sufficient to cover the deficiency.

As contracts were awarded, the projections were revised to reflect the contract amounts and other changes. ITT was kept informed of project cost increases through monthly financial information submitted by BWDC.

The following is a summary of BWDC cost projections at three dates. The July 1988 figures are the preliminary estimates used to support the $10 million guarantee. The May 1991 projection is the most recent one.

Projected Capital Costs ($ millions)

	Preliminary Estimates July 1988	Projected Capital Costs May 1990	May 1991
Construction costs	$13.5	$18.5	$19.3
Plus: Interest	1.4	6.9	5.0
Operating deficit	–	1.5	1.4
Total costs	14.9	26.9	25.7
Grants			
Municipal	1.0	1.0	1.0
Provincial	4.5	4.3	4.3
Federal	5.0	5.0	5.0
	10.5	10.3	10.3
Net costs	4.4	16.6	15.4
Less: Proceeds from land sales	4.1	6.3	5.4
Projected deficiency	$ .3	$10.3	$10.0

The projected deficiency has increased to $10 million as evidenced by the projection prepared in May 1991. The major causes of the increased deficiency from the preliminary estimates were increases in construction costs of $5.8 million, interest costs of $3.6 million and operating deficits of $1.4 million. Estimated proceeds from land sales increased by $1.3 million.

In June 1990 Executive Council increased the loan guarantee to $12.5 million. The Province will likely have to either honour the entire $12.5 million guarantee or provide additional funding to BWDC according to current projections.

In June 1991 the Waterfront Development Coordinating Committee of the Province of Nova Scotia adopted Waterfront Development Project Guidelines to provide direction and assistance to waterfront development organizations and their projects in Nova Scotia. Two major aspects of the Guidelines relate to ownership of waterfront development corporations and limitations on funding provided by the Province for their projects. Specifically, the Guidelines state that the corporations will be owned by the municipality, and that Provincial participation in the projects will not normally exceed 60%. These provisions will increase municipal participation in the projects.

Financial Statements

We concluded that the financial statements are prepared in accordance with generally accepted accounting principles. Real estate and development projects are valued at net cost after receipt of capital grants, including accumulated excesses of operating expenses over revenue. The net realizable value (estimated land sale proceeds) of the real estate and development projects is currently disclosed in Note 1 to the financial statements.

This approach assumes that the debt guarantee is receivable from the Province and, therefore, that BWDC has not incurred a deficit on this project to date. When the project is complete and the bank is paid by the Province, the carrying value of the land will be adjusted appropriately.

Another option is to write down the cost of real estate and development projects on the balance sheet ($12.9 million) to the net realizable value ($5.4 million). This alternative assumes that net realizable value is the appropriate basis for carrying the projects on the balance sheet and that BWDC has incurred a deficit to date which should be recorded currently. Honouring of the guarantee is a separate transaction which would be recorded in the future, when it actually occurs.

These alternatives represent two assumptions with respect to timing of recognition of the write-down of the value of the land and honouring of the Provincial guarantee. The second alternative, in our opinion, is more conservative and informative and should be considered by BWDC.

In addition, the following items should be disclosed:

- the Province of Nova Scotia debenture on the lands as security for the long-term debt; and

- the commitment to the Town of Bedford for the transfer of certain lands.

We also made some suggestions for improving financial statement presentation.

Concluding Remarks

The construction contracts associated with Phase I are nearing completion and proposals for development of these lands have been called for. The transfer of public lands to the Town of Bedford is also in progress.

The future of Phase II of the project is uncertain at this time. There should be a plan to address the current debt of the Corporation, and a decision should be made concerning whether BWDC will proceed with Phase II and how it will be financed.

HALIFAX-DARTMOUTH BRIDGE COMMISSION

Background

The Halifax-Dartmouth Bridge Commission was incorporated under its own act in 1950. Its purposes are to construct, maintain, and operate bridges, and the necessary approaches, across Halifax Harbour. The Commission consists of five representatives from the Province of Nova Scotia, including the Chairman and Secretary, two representatives from the City of Halifax, and one member each from the City of Dartmouth and the Municipality of the County of Halifax, for a total of nine members.

The Commission for the fiscal year ended December 31, 1990 had annual revenues in excess of $14.3 million. Its asset base was approximately $55 million and there was an accumulated general deficit of over $62 million.

Although the Auditor General is not the appointed auditor of the Commission, we are authorized under Section 17 of the Auditor General Act to conduct such additional examination and investigation of the records and operations as we deem necessary. During the year this Office completed a follow-up to a review we performed in mid-1989. The 1989 Report of the Auditor General included an article summarizing the results of that review.

Results in Brief

The following are the principal observations and conclusions resulting from our follow-up examination.

- The Commission now has a detailed five-year plan and long-range planning extending to ten years.
- An Administrative Policy and Procedures Manual has been developed which covers all aspects of the Commission's operations.
- Improvements have been made in the areas of cash management, financial statement presentation and disclosure, depreciation policies and formalization of contracts.
- The Commission's long-term debt has been converted to Canadian Dollars from Swiss Francs and the Commission has a well-defined plan for debt retirement.
- Policies have been implemented for monitoring and consultation regarding long-term debt.
- When refinancing decisions take place, options considered are not formally analyzed.

Audit Scope

The objective of our review, conducted early in 1992, was to determine the status of action taken or planned to address the recommendations reported to the Commission in 1989.

Principal Findings

Planning and Policies

In our previous review we recommended that a formal strategic plan be prepared. This recommendation has been implemented. The Commission has developed five-year operational plans. Long-range plans have been extended to ten years. The plans will be updated annually based on information available at the time.

Operations and Accounting

Most of our recommendations in this area have been implemented.

An Administrative Policy and Procedures Manual has been developed to document the financial and operating management systems at the Commission. Included in the Manual are policies and procedures for cash management. Monthly management reports that provide information for accountability purposes are not yet provided, but are planned for the near future.

A formal agreement with the Canadian Corps of Commissionaires has been negotiated and this is updated annually.

The Bridge Commission has reviewed our recommendation of establishing separate cost centres to reflect the operations of each of the bridges and has decided it is not practical at this time.

Financial Statement Presentation

The Commission has implemented some of the recommendations we made in this area. The cost of the approach roads to the MacKay Bridge has been removed from the accounts of the Commission since it has no legal title to these assets. The debt retirement fund is now disclosed as a long-term asset.

The depreciation policy for the bridge superstructure and substructure has been reviewed and appropriate changes have been made.

Since our last review of the Commission's operations, it had an operating deficit (excluding the effects of exchange gains and losses) of $769,197 for the year ended December 31, 1989, and an operating surplus of $88,171 for the year ended December 31, 1990. The 1991 results had not been finalized at the time of this Report.

A request was made by the Commission to the Province for reimbursement of the 1989 deficit as had been the practice in the past. The request was turned down.

However, a policy whereby deficits funded by the Province are repaid in years when the Commission has a profit, as recommended in our 1989 Annual Report, has not been implemented.

Long-term Debt Financing

In our 1989 Annual Report we noted that the most topical aspect of the Commission's operations over the past few decades has been its debt financing. Since the 1970's the long-term debt of the Commission has been financed in Swiss Francs. On July 1, 1991 the $125 million Swiss Franc loan was repaid with $92 million Canadian.

To replace it and to raise additional capital to fund repairs and additions to the MacDonald Bridge, a loan of $100 million Canadian was obtained from the Bank of Montreal for 10 years at a fixed rate of 11% repayable in 2001. Starting on July 1, 1992 an amount of $5 million must be deposited annually into a sinking fund to retire the debt. Current plans are to have the debt retired in 2007.

We recommended in our 1989 Report that the Commission should adopt a policy of preparing a complete and formal analysis of the options considered, in order to more adequately support major financing and refinancing decisions. A formal analysis should include the benefits and risks involved, the type and source of outside financial advice obtained, and the reasons supporting the decisions.

Written proposals were requested and received for the refinancing of the debt and there is evidence in the minutes of the Investment and Long-Term Debt Committee that the available options were discussed and considered. However, a complete and formal analysis was not prepared. The Commission felt that since the proposals were all for a transfer of the debt to Canadian Dollars (a decision previously made by the Board) and since the only major difference in the proposals was the interest rate offered, the approach taken was appropriate for the circumstances.

The Commission has included a well-defined plan for the retirement of debt in its long-range planning.

We also recommended that the Commission should have a policy requiring periodic monitoring and consultation regarding its long-term debt. This would support decisions for refinancing and debt reduction, as well as ensure a regular, planned expert consultation on world money markets and economic conditions. An Investment and Long-Term Debt Committee was formed in 1989 for this purpose. Its meetings have included regular expert consultation.

Concluding Remarks

Based on this follow-up review, we believe that the Halifax-Dartmouth Bridge Commission has made considerable progress in addressing the problems and issues identified in our 1989 Report.

We commend the Commission for its initiatives to date, and encourage it to continue its efforts to effectively manage and retire its large long-term debt and maintain its operations.

NOVA SCOTIA RESOURCES LIMITED

Background

Nova Scotia Resources Limited (NSRL) was incorporated under the Nova Scotia Companies Act on November 16, 1979. By 1981 its three issued shares had been transferred to the Province of Nova Scotia, and on May 26, 1981 crown corporation status was conferred upon it by Order in Council.

The Company's mandate, approved by Executive Council in 1981, is to propose, negotiate and manage investment by the Province of Nova Scotia in mineral, petroleum and energy resources and related projects, usually in partnership with the private sector. The Company has a number of subsidiary and related companies, the principal one of which is Nova Scotia Resources (Ventures) Limited.

As stated in its March 31, 1991 Annual Report, NSRL and its subsidiaries hold the following significant assets:

- interests in 19 significant hydrocarbon discovery areas offshore Nova Scotia;
- a 50% interest in the offshore Cohasset and Panuke oil fields currently under development by LASMO Nova Scotia as Canada's first commercial offshore production project with planned startup in spring 1992;
- ownership of 7.2% of all discovered natural gas reserves offshore Nova Scotia, including 10% of the Venture Gas Project fields containing 3.5 tcf natural gas reserves;
- interests of 25% – 100% in four offshore Nova Scotia exploration areas totalling 237,646 acres; and
- significant interests in producing oil and gas properties in western Canada.

NSRL presently has seven full-time employees. Its Board of Directors has nine members who are all appointed by the Province.

In the fall of 1991 we completed a review of certain areas of NSRL's operations under Section 17 of the Auditor General Act. This was our first review of the Company.

Results in Brief

The following are the principal observations and conclusions resulting from our examination.

- Accountability to government and the Legislature could be improved in some respects.

- Internal accountability of management to the Board of Directors is satisfactory in that all information requested is provided. There could be additional financial information provided and improved documentation of Board approvals.

- The financial management process at NSRL is being performed well. The Company prepares budgets for its operations and for each of the projects it undertakes.

- The audited financial statements adhere to generally accepted accounting principles.

- There is a need to document policies and procedures in some major areas of financial management and purchasing.

- The Company has a formal strategic plan.

Audit Scope

The objectives of this assignment were to:

- obtain an understanding of the Company's financial position;

- review and assess the internal and external accountability framework for the Company;

- review and assess compliance to policies and procedures in certain key areas, including financial management, purchasing, and general and administrative costs;

- review financial statements;

- review and assess NSRL's planning function; and

- gain an understanding of NSRL's agreements with external entities.

It must be clearly understood that this Office does not have expertise in the oil and gas industry and that we did not use outside consultants for this assignment. The scope of our review was, therefore, limited mainly to financial management, planning and accountability. These are areas that we have audited in other crown corporations.

Principal Findings

Accountability

We concluded that accountability to government and the Legislature could be improved in some respects.

- Order in Council 81-1099 specifies that the Minister of Natural Resources is to receive and approve the operating budget of the Company prior to December 1 each year. The Minister does not receive the operating budget.

  The Company has advised that in 1981-82, its first year of operations, working capital was provided by appropriations from the Province and the sole intention of this provision was to enable the Minister of Natural Resources to request such appropriations as part of the overall budget of the Department. Since 1982 no appropriations have been requested, as Company operations have been funded through other means. Therefore, the Company maintains the provision has had no further application. Our legal counsel has indicated that the requirement is in the Order and, therefore, submission of the operating budget is required.

  We believe that submission of the Company's annual operating budget to the Minister is important for accountability, whether or not it is a legal requirement.

- The Minister of Natural Resources also does not receive and approve NSRL's quarterly financial reports, actual to budget comparisons, or projections and forecasts. NSRL's annual audited financial statements, Board of Directors quarterly agenda package and minutes of the Board meetings are sent to the Minister of Natural Resources. The President and Chairman of the Board of NSRL provide both verbal and written information to the Minister on a regular basis concerning the plans and operations of the Company. Presentations have been made to Cabinet and other members of government on occasion.

- Major projects and expenditures are approved by the Board of Directors. There is an absence of documentation of approvals by the Minister of Natural Resources and the Executive Council. Approvals are given by Orders in Council for the financing level increases necessary to carry out the projects and expenditures. NSRL indicated that the Minister makes the Executive Council aware of the need for such increases, but there was no written documentation that the Minister had done this.

- While management of NSRL is providing information requested by the Board of Directors, financial reporting to the Board and documentation of Board approvals should be reviewed. All aspects of major capital projects should be approved and documented. Annual budgets and project budget increases should be formally approved by the Board. The Board should also receive quarterly statements of general and administrative expenses and major professional services.

Financial Statements

The audited consolidated financial statements of NSRL are in accordance with generally accepted accounting principles. We noted some minor areas where financial statement presentation could be improved.

Financial Management

We concluded that financial management at NSRL is being performed well. The Company prepares budgets for its operations and for each of the projects it undertakes. There is an adequate system for the accumulation of financial data and regular financial reports are produced to meet the needs of management.

We suggested that forecasts for the Company's western properties should continue to be updated to incorporate acquisitions and changes as frequently as is practical. Actual results compared to the forecast should continue to be reported regularly.

Although there are policies and procedures for financial management, many of these are not documented. We believe that policies should be documented for major areas such as cash and debt management, investing, hedging, tendering and conflict of interest.

Financing and investing decisions appear to be made based on a sound analysis of alternatives. We have recommended the establishment of a formal report for tracking the hedging of costs and revenues.

The Corporation has a Personnel Manual that contains some policies in the area of general and administrative costs, but the Manual has never been approved by the Board. Management and the Board are presently considering certain policies and practices that we drew to their attention.

Purchasing

There are no conflict of interest policies for employees. General conflict of interest provisions relating to the Board of Directors are set out in NSRL's Act of Incorporation, but these need to be expanded.

Price quotation and tendering practices are followed for major goods purchased. Tendering for oil exploration and development consultants' services is not always done. We have suggested that the tendering policy be reviewed and a written policy considered.

Strategic Planning

NSRL has a strategic plan for a suitable future period. The plan has been approved by the Board of Directors and by the Province of Nova Scotia. Province of Nova Scotia approval was not documented. The Company has short-term plans in the form of project budgets and yearly operating budgets.

Agreements

Agreements are reviewed by management, the Board and legal counsel before they are signed. The Joint Operating Agreement for the Cohasset/Panuke Project includes provisions for adequate accountability to NSRL for resources invested in the Project.

Royalty agreements between the Province and NSRL/LASMO Nova Scotia Limited have not yet been signed. Negotiations are in progress, and it is hoped that agreements will be put in place before the start of production in the spring of 1992.

Concluding Remarks

The Province of Nova Scotia has provided significant guarantees for the debt of NSRL. NSRL is currently involved as a partner in a multi-million dollar development and production project and has interests in several other projects. There is a need for improved information reporting from NSRL to the Province and to the Legislature to ensure adequate accountability.

SCHOONER BLUENOSE FOUNDATION

Background

The Schooner Bluenose Foundation was established by the Schooner Bluenose Foundation Act in 1983. The objects of the Foundation in brief are:

- to enhance the Bluenose as a symbol of Nova Scotia's heritage and to promote tourism;
- to ensure the status of the Bluenose in perpetuity;
- to solicit funds from both private and public sources for maintenance and replacement; and
- to make the Bluenose a self-sustaining operation.

Results in Brief

- There has been minimal planning and fund raising to date.
- The Board of Governors has been inactive since October 1990 when the memberships on the Board were not renewed.
- The report on a 1990 maintenance survey of Bluenose II provides assurance that the vessel is safe and meets applicable Coast Guard Regulations. It lacks important information however, such as a future maintenance cost forecast.

- The Minister of Tourism and Culture is currently serving as President and has announced that Bluenose II is to be replaced. While no replacement timing has been established, fund raising objectives anticipate not only replacement but a self-sustaining operation.

Audit Scope

The objectives of our review were:

- to obtain an understanding of the Foundation's current financial status; and
- to assess the scope of operations to date, and plans for the future, relative to the objects of the Foundation.

Principal Findings

Financial Status

The Foundation has equity of $283,000 and investments of $254,000 as at March 31, 1991. The four fiscal years ending March 31, 1986 to March 31, 1989 inclusive showed an accumulated excess of expenditures over revenue totalling $4,200. Expenses since April 1, 1989 have been paid by the Department of Tourism and Culture. These contributions by the Department have enabled the Foundation to retain revenues of $38,000 and $30,000 in 1990 and 1991 respectively.

Investment income, generally between $20,000 and $30,000 per annum, is earned principally from an original fund of $220,000 provided in 1985 by a cash donation of $100,000 and promotional advertising, both by Petro Canada Limited. There have been miscellaneous cash donations totalling $32,000 in the past three years.

Scope of Operations

The Board of Governors has been inactive since October 1990 when the memberships on the Board were not renewed. The Minister of Tourism and Culture has been serving as President since that time.

Discussions with the former President and a review of minutes of the Board of Governors' meetings revealed that promotional activities by larger corporations other than Petro Canada have been minimal. The uncertainty of whether Bluenose II should be rebuilt or replaced was suggested as the principal reason for minimal planning and promotional activity. The Bluenose name has been used in promoting products to earn royalties, but the earnings have been modest.

The Minister of Tourism and Culture recently announced that the vessel is to be replaced. He has suggested an objective of raising $10 to $12 million from corporate and other private sources. He believes this should be sufficient to provide the $6 to $8 million approximate replacement cost (based on an independent estimate requested by the Department) and have a balance to invest for other purposes. There has been no specific mention of a date when construction may begin.

The long-term goal of the Foundation is to be self-supporting, providing sufficient revenue to meet all operating costs for the Bluenose, including regular maintenance and refits. An additional goal is to provide the school system with educational material on the heritage of a ship-building era.

Maintenance Survey

A survey was conducted in 1990 of Bluenose II, her maintenance history, present condition and anticipated service life. The Executive Summary of the survey report defines the parameters as *"...to study the maintenance history of Bluenose II, survey the hull, prepare a projected maintenance forecast and make recommendations on the findings".*

The following key observations result from our review of the survey report. Quotations come directly from the report.

- *"...there do not appear to be any critical situations in the hull structure, the vessel continues to meet applicable Coast Guard Regulations... It is a safe vessel if handled in a conscientious manner and not subjected to unnecessary pressures."*

- The vessel *"...was built in 1963 at a minimum cost with softwood framing and in a manner which gave little consideration to longevity."*

- *"The hull structure has slowly changed shape over the years... This change in hull shape indicates an overall structural weakness which cannot be regained."*

- *"The refits have merely replaced poor, rotted wood with similar material to the original and have not improved the structural quality of the schooner."*

- The study did not accumulate a total maintenance cost to date for the vessel. There were no records available for three years and, in other instances, records did not account for funds provided from other sources.

- There is no estimate for future maintenance costs. The report states in summary *"One extensive major refit will be needed in about five years. This will mean a large expense, it may be offset by reduced expenses for the following few years. In short, future maintenance will resemble the past, with the added probability that costs will escalate due to the increasing deterioration of major structural items and previously unreplaced structural timber."*

- The concluding recommendation of the survey is *"...that she be replaced with a vessel which appears identical to Bluenose, but incorporating all the lessons learned from the operation of Bluenose II."*

This survey, obtained by the Department, provides assurance that the vessel remains safe and meets applicable Coast Guard Regulations. It provides only general information on expected future maintenance costs. We were informed that the extent of maintenance is difficult to predict in view of the age of the vessel and the materials originally used.

Concluding Remarks

The Department of Tourism and Culture obtained a survey of the vessel's current condition. This has provided assurance that the vessel continues to be safe and meets applicable Coast Guard Regulations. The Department has also obtained an independent calculation of approximate replacement cost.

We must conclude, however, that the objectives of the Foundation have not yet been fulfilled to any great extent. There has been minimal planning and fund raising to date. The Foundation is a framework for future action to provide promotion and enhancement of the Bluenose as a symbol of Nova Scotia. Present plans for fund raising, if fulfilled, should more readily meet the objectives of the Foundation as expressed in legislation.

TIDAL POWER CORPORATION

Background

The Tidal Power Corporation was established in 1971. Its largest undertaking has been the development and construction of the Annapolis Tidal Generating Station with an installed capacity of 20 megawatts.

The Generating Station was sold to Nova Scotia Power Corporation (NSPC) on becoming operational in 1984. Since that time, the Tidal Power Corporation has concentrated on research on the impact of providing electricity by tidal power.

Pursuant to Section 16 of the Tidal Power Corporation Act, the operating grant from the Province of Nova Scotia for the fiscal year 1990-91 was $45,000, down from $80,000 for the prior year.

Results in Brief

- Administration and research expenses seem reasonable in light of the current objective of maintaining a knowledge base in the event that future economic and environmental circumstances suggest tidal power to be feasible.

- The Corporation considers Site A-8 in Cumberland Basin with an optimal installed capacity of 1400 megawatts as representing the prudent upper limit of any development in the Bay of Fundy region. The capital cost would be in the $3-4 billion range.

- Tidal power must be considered presently as additional power to be developed only if exportable. Currently the demand for power in the eastern United States is down compared to the early 1980's.

- Current cost projections for tidal power exceed those of other alternative power sources.

AUDIT SCOPE

This was our first review of the Corporation since it was established in 1971. The objectives of the review were to:

- gain an understanding of and evaluate the Corporation's current level of operating activity;
- determine costs and results to date, plus projected costs, in light of the Corporation's objectives and plans for the future; and
- determine if there is a consensus on the economic and environmental feasibility of harnessing tidal power adjacent to the Province of Nova Scotia.

PRINCIPAL FINDINGS

Scope of Operations

The Corporation's scope of operations was reduced on December 1, 1989 when research activities were scaled down. The President serves part-time, on a per diem basis, and membership on the Board of Directors has been limited to officials of the Department of Natural Resources and the NSPC. The Board is chaired by the Minister of Natural Resources.

The Corporation continues to have access to the Annapolis Tidal Generating Station to monitor operations and conduct research. The Corporation's current objective is to maintain its knowledge base on tidal power technology so as to respond quickly should circumstances suggest development of selected tidal power sites to be appropriate.

The most extensive research during the fiscal years 1987-88 to 1990-91 has been in the area of fish diversion through the use of behavioral devices. Other studies have concentrated on the impact of tidal power on sedimentation, fish stocks, and modelling the effects on tides. During the fiscal years 1984-85 through 1990-91, approximately $1.4 million was received from the Province of Nova Scotia in operating and research grants, and $452,000 was received under the Canada-Nova Scotia Agreement on Oil Substitution and Conservation. Expenditure on research during the same period was approximately $1 million.

Costs and Results to Date

The Annapolis Tidal Generating Station construction commenced in 1980 and it was completed and operational in 1984. The total cost of construction was approximately $57 million, of which the Government of Canada and the Province of Nova Scotia contributed $25 million and $7 million respectively. The station was sold to NSPC for the remainder, approximately $25 million, in August 1984. It has been generating, for 95% of tide changes, at approximately 15 megawatts capacity since that time.

The current position of the Corporation and a summary of certain of the options available to it were effectively presented by the former Executive Vice-President of the Corporation in an address to a tidal power workshop held in Halifax in October 1990. Much of the factual material presented in the following paragraphs is summarized from that address and from other interviews.

The Corporation has two preferred future tidal power sites adjacent to the Province. They are Site A-8 in Cumberland Basin with an optimal installed capacity of 1400 megawatts, and Site B-9 in Minas Basin with an optimal installed capacity of 5600 megawatts.

In terms of cost, the former Executive Vice-President indicated that the capital cost of site A-8 in Cumberland Basin would be in the $3 – 4 billion range, including transmission, and would probably represent the prudent upper limit for the first full scale plant in the Bay of Fundy region.

In contrast he stated that *"by comparison B-9 would involve about four times the capacity and capital cost of A-8, and in addition it is predicted to have much more significant effects on the tidal regime. For these reasons it is not now viewed as a realistic candidate for initial development."*

Future Feasibility and Costs

The current installed capacity of power stations operated by NSPC in the Province has been approximately 2000 megawatts for the past five years and peak demand has been approximately 1400 to 1800 megawatts. Tidal power expressed in capacities attributable to the Bay of Fundy sites must therefore be considered as additional power to be developed if exportable.

The most logical customer for exportable power is the eastern United States but we were informed that a marketing study conducted in 1984 revealed that the New England Power Pool would require a firm capacity, not available solely from tidal power. An option for tidal power is synchronous operation with a hydro system having large storage capacity. Hydro Quebec has suitable facilities but was disinclined, in 1984, to make them available.

Two potential environmental impacts were presented to us as real problems. One is the potential mortality inflicted by a tidal plant on fish and marine mammals. There is apparently insufficient current evidence that this problem can be dealt with in a manner that would secure project approvals from environmental agencies.

The other potential environmental impact relates to tidal ranges in the Gulf of Maine. Computer models have indicated that the Cumberland Basin site could increase tide levels by three centimeters on average along the eastern seaboard of Maine, whereas the Minas Basin site could increase the average tide level by 13 centimeters. These increases, Corporation officials point out, must be considered in the context that the coast has sunk, the mean sea level has increased, and many installations along the U.S. coast and the Gulf of Maine were built many years ago.

One major positive environmental benefit was however presented to us. Tidal power has no emissions to contribute to global warming or to acid rain.

On the economic side, tidal power is not competitive with either thermal plants or combined-cycle gas plants in New England. We were informed that the Corporation foresees no significant change in this regard over the next few years but they do foresee renewable and non-polluting sources of energy eventually being demanded. To quote the President from his 1989 Annual Report:

> *"It has been the Corporation's aim to ensure, to the extent possible, that when this situation arises all technical and environmental problems will have been resolved so that development can proceed."*

In seeking some cost comparison of tidal power energy to that produced for consumers in Nova Scotia, we were advised that the rate paid by the NSPC to independent power producers (IPP) may be an appropriate comparison. The IPP rate was obtained from the Public Utilities Board order number NSPC828.0R3 dated October 22, 1990. This rate is based on NSPC's "avoided cost" which is the cost of installing additional capacity and transmission at any point in time.

In 1990 dollars, the IPP rate was 6.19 cents compared to the 7.82 cents/kwh for tidal energy expressed in the former Executive Vice-President's address to the tidal power workshop mentioned above. This is using a real interest rate of six percent and provides a somewhat more recognizable comparison than referring solely to total development costs in the billions of dollars.

A further international comparison is possible by reference to National Energy Board statistics. Based on their third quarter 1991 statistics, the price for firm power to Boston Edison Inc. from New Brunswick Power Corporation is approximately 4.4 cents/kwh. The firm power exports from Hydro Quebec to New York average about 3.3 cents/kwh.

Concluding Remarks

One of our objectives was to determine if there is a consensus on the economic and environmental feasibility of harnessing tidal power adjacent to the Province. Based on the information provided, the conclusions of senior officials of the Corporation seem reasonable to us. Tidal power must be considered presently as additional power for export, rather than for domestic consumption. It must also be considered a power source for the future when renewable and non-polluting sources of energy may eventually be demanded.

Based on costs, the extent to which the Province of Nova Scotia can be involved in the development of massive utility undertakings, such as Tidal Power, has to be approached cautiously. However, current expenses for administration and research seem reasonable in the context of maintaining the Corporation's data base of information, and keeping abreast of new developments in the tidal power energy field.

* * * * * *

TRANSFER PAYMENT REVIEWS

INTRODUCTION

In 1988 the Auditor General was provided an extended mandate to audit the accounts of any person or institution receiving financial assistance from government or an agency of government. Audits under our transfer payment mandate include assignments in four areas of government expenditure.

- *Education* – payments to school boards, universities, and other post-secondary institutions.
- *Health* – payments to hospitals and other health care institutions.
- *Municipalities* – general assistance to municipalities, and financial assistance for specific projects.
- *Community Services* – payments to various institutions, and other payments.

Our objectives are to determine whether the financial assistance from the Province has been used for the purposes intended, and whether funds have been expended with due regard for economy and efficiency. Our transfer payment audits normally comprise three distinct phases:

- an overview to determine the administrative and control structures in place at the institution and at the related government department;
- a review of the specific operating systems and controls at the institution; and
- a detailed review of selected areas of administration, particularly those which impact significantly on financial and operating results.

The 1990 Report of the Auditor General included comprehensive articles from our first transfer payment audits in universities and school boards.

Since our last Report, we completed transfer payment audits at two hospitals – the Dartmouth General Hospital and Community Health Centre, and the South Shore Regional Hospital. We also completed the first phase of a two-phase assignment relating to human resource management at school boards. This section of the Report has an article on each of these assignments.

HOSPITALS

INTRODUCTION

There are more than 50 hospitals operating within, and funded by, the Province. For the year ended March 31, 1991 the Province's funding of inpatient and outpatient services at general and psychiatric hospitals (including mental health centres) amounted to approximately $743 million.

For the fiscal year ended March 31, 1991 this Office was the financial statement auditor of four hospitals – the Camp Hill Medical Centre, the Cancer Treatment and Research Foundation of Nova Scotia, the Nova Scotia Hospital and the Victoria General Hospital. In addition to our financial statement audit mandate, we have previously reported on broad scope audits performed at the Victoria General Hospital (1981, 1989 and 1990). In 1990 we also reported on a broad scope audit of the Nova Scotia Rehabilitation Centre Corporation.

The following articles summarize the results of transfer payment audits of two hospitals completed under section 15 of the Auditor General Act. The audits were conducted at the Dartmouth General Hospital and Community Health Centre (DGH), and the South Shore Regional Hospital (SSRH).

This Office's mandate, general plans and approach for our review of hospitals were presented to the Board of the Nova Scotia Association of Health Organizations. Planning meetings were held with senior management and Board representatives of each of the hospitals reviewed.

We reviewed the following areas at each hospital:

- financial management process;
- capital expenditure planning and control;
- fixed asset management;
- purchasing;
- management information systems; and
- policies and procedures.

We also reviewed controls over workload productivity for nursing staff at SSRH.

Our audit reports released to the hospitals included a number of recommendations for management's consideration. Certain of our recommendations relate to areas of responsibility shared between the hospitals and the Department of Health and Fitness.

It is acknowledged that we received the full cooperation of hospital management and staff during these audits.

DARTMOUTH GENERAL HOSPITAL AND COMMUNITY HEALTH CENTRE

Background

The Dartmouth General Hospital and Community Health Centre (DGH) was incorporated under the Dartmouth Hospital Commission Act in 1975. At the time of our review in late 1990 the Hospital had 149 beds, a medical staff of 80 family practi-

tioners and 62 specialists, and a Hospital staff of 500 full-time, part-time and casual employees. It is an operation of approximately $18 million annually, with about 98% of the funding being received from the Department of Health and Fitness (DOHF). For the year ended March 31, 1990 the Hospital operated at close to break-even.

Subsequent to our review, management has provided information to us indicating that it has taken action to address our recommendations. This information is reflected in our article.

Results in Brief

The following summarizes the significant comments and conclusions from this assignment.

- The financial management function at the Hospital is being performed well. The Board, its committees, senior management, and staff fulfill significant, appropriate roles in this area. The accountability and reporting system for financial and other resources is adequate.
- The planning and control of capital expenditures are adequate.
- The physical and accounting controls for fixed assets were deficient. Management indicates that the necessary controls are now in place.
- There are policies and procedures to ensure goods and services are acquired at reasonable cost, but the system to monitor and control purchasing was not adequate. Management indicates that the system has been revised.
- Management information systems resources are being used, controlled and protected adequately.
- Policies and procedures have been established for key areas of operations.

Audit Scope

In summary, the objectives of this assignment were to assess:

- the financial management process, including planning, budgeting, monitoring and reporting;
- the adequacy of controls over capital expenditures and fixed assets;
- the policies and procedures in the purchasing area;
- the nature and extent of the Hospital's management information systems; and
- whether the Hospital has established reasonable policies and procedures in key areas.

For each area, more detailed audit objectives and criteria were developed and discussed with senior management and representatives of the Hospital's Board of Commissioners. Our approach was based on interviews with management. We reviewed various reports and documents, as well as minutes of the Board, Property and Finance, and selected other committees.

Principal Findings

Financial Management Process

The financial management function at DGH is performed well. The Hospital has made significant efforts in long-range strategic planning and has an adequate short-term planning process for its operations.

Although the Hospital adheres to the DOHF requirements, there is a need for more formal impact analysis for all additions or expansions of programs, physicians or facilities. A formal impact analysis program for new specialists was being implemented at the time of our visit.

Roles and responsibilities for management and the Board are clearly defined and communicated.

The annual budgeting process is largely determined by Department of Health and Fitness deadlines and requirements. Senior management and staff are adequately involved in the process and are committed to operating with available resources. We recommended that consideration be given to expanding the role of the Board in the budget review and challenge process. Management indicates that our recommendations have been implemented.

The financial reporting system accumulates and reports financial information to the Board, senior management and DOHF on a reliable and timely basis. The financial reporting to the Board was at a summary level, and we recommended expanding it. According to management, this reporting has now been significantly expanded.

Capital Expenditure Planning and Control

DGH's planning and control of capital expenditures are adequate, but policies and procedures needed to be formally documented for the planning, review, approval and control of these expenditures. These should include a formal post-completion analysis for each major capital project. Management indicated that policies and procedures are now formally documented.

There are periodic written reports to the Board detailing the status of capital equipment purchases, but there was no requirement for similar status reporting on capital construction projects. We have been informed that formal policies and procedures are now in place for status reporting on capital construction projects.

We have recommended some changes in the financial statement disclosure of amounts related to the financing of capital expenditures. These have been made on the March 31, 1991 financial statements.

Fixed Asset Management

The physical and accounting controls for fixed assets were deficient. We recommended that management consider:

- expanding and formalizing hospital-wide policies and procedures;
- establishing responsibilities for monitoring and reporting; and
- implementing a fixed asset management system.

Management indicates that a fixed asset management system, including policies, procedures, monitoring and reporting, has been implemented.

Purchasing

There were policies and procedures in place to help ensure that goods and services are acquired at reasonable cost, but many were informal and not well-documented. Policies and procedures have now been formalized and documented.

The Hospital participates in group/bulk purchasing. Where practical, tendering and quotations are used to procure goods and services.

Monitoring and control over the purchasing function were informal and in most instances not documented. Management informed us that improvements have been made.

Management Information Systems (MIS)

The Hospital's MIS resources are being used, controlled and protected adequately. Annual and longer-term plans for the development, implementation and use of MIS resources are prepared.

The Hospital is making progress, and has a schedule for the continued implementation of the new DOHF MIS guidelines.

Policies and Procedures

The Hospital has formalized policies and procedures for key areas of its operations. However, we found none for cash management and interest revenue allocation, and the policies for conflict of interest and signing authorities required improvement. Policies and procedures have since been reviewed and additions and improvements made where necessary.

Concluding Remarks

Our overall conclusion regarding the Hospital's financial management and other areas reviewed was generally favourable. Improvements were recommended in a

number of areas, particularly regarding the controls for fixed assets, as well as the monitoring of the purchasing function.

Information recently provided to us indicates that Hospital management has taken action on most of our recommendations. We commend their efforts in these areas. Certain topics require Department of Health and Fitness involvement, or management has determined the costs or benefits do not warrant the changes required.

SOUTH SHORE REGIONAL HOSPITAL

Background

The South Shore Regional Hospital (SSRH) was incorporated under a special act of the Province of Nova Scotia dated April 27, 1920. SSRH has 128 beds, a medical staff complement of 33 family practitioners and 26 specialists, and a hospital staff of 400 full-time, part-time and casual employees.

Total revenues for SSRH were $19.8 million for the year ended March 31, 1991. Of this amount 87% was shareable revenue received from the Department of Health and Fitness (DOHF). The other 13% was non-shareable revenue from miscellaneous sources.

The 1991 financial statements report a break-even position on shareable revenues and expenditures and a non-shareable deficit of $.5 million.

Results in Brief

The following summarizes the significant comments and conclusions from this assignment.

- The financial management function at the Hospital is being performed well. The Board, the Finance Committee and other Board committees, senior management, and staff fulfill significant, appropriate roles in this area. The accountability and reporting system for financial and other resources is adequate.

- The Hospital's planning of capital expenditures is not adequate. A portion of the fourth floor area, with a capital cost of $.5 million funded from Board funds, has remained unfinished and unoccupied since being constructed in 1988. The control of capital expenditures is adequate.

- The Hospital's physical and accounting controls for fixed assets are deficient and should be improved where practical.

- There are policies and procedures to help ensure that goods and services are acquired at reasonable cost, but the system to monitor and control purchasing is not adequate and improvements should be considered.

- Management information systems resources are being used, controlled and protected in a cost-effective way.

- The Hospital plans and forecasts the high and low periods of nursing workload activity. The related staffing requirements for nursing departments are also forecast. There are no workload productivity measurement standards in place.

- Policies and procedures have been established for most key areas of operations.

Audit Scope

In summary, the objectives of this assignment were to assess:

- the financial management process, including planning, budgeting, monitoring and reporting;

- the adequacy of controls over capital expenditures and fixed assets;

- the policies and procedures in the purchasing area;

- the nature and extent of the Hospital's management information systems (MIS);

- the nursing department workload planning and monitoring techniques; and

- whether the Hospital has established reasonable policies and procedures in key areas.

For each area, more detailed audit objectives and criteria were developed and discussed with senior management and representatives of the Hospital's Board of Management. Our approach was based on interviews with management. We reviewed various reports and documents, as well as minutes of Board, Finance and other committee meetings. We also reviewed the Hospital's Act and By-laws.

Principal Findings

Financial Management Process

We concluded that the financial management function at SSRH is being performed well.

The Hospital has made efforts in long-range strategic planning and has an adequate short-term planning process for its operations.

Roles and responsibilities for management and the Board of Directors are clearly defined and communicated.

The timing of the annual budgeting process is largely determined by Department of Health and Fitness (DOHF) deadlines and requirements. We found that all staff

and senior management of the Hospital are adequately involved in the process and are committed to operating within their limited resources.

The Hospital's financial reporting system is adequate to accumulate and report financial information to the Board, senior management and DOHF on a reliable and timely basis. Actual results are compared to budget on a monthly and year-to-date basis. Variances are reported.

The reporting of statistical information to senior management and the Board appears adequate. The financial reporting to the Board is at a summary level and consideration should be given to expanding it to include projections to year-end, and written explanations of variances.

Capital Expenditure Planning and Control

We concluded that the budgeting and control of capital expenditures are adequate. However, formal documented policies and procedures need to be established for the planning, review, approval and control of these expenditures.

A portion of the fourth floor is structurally complete and is being used for storage. The cost of this area, funded through Board funds, amounted to approximately $.5 million. This area was planned, at the time of construction, for future expansion. Since that time, DOHF has not been formally requested to fund program expansions which would require use of this area.

The planning for capital expenditures does not appear to be adequate. We have recommended that a long-range strategic plan for capital expenditures be prepared.

There are regular written reports to the Board detailing the status of capital equipment purchases. There is no formal post-implementation analysis performed for major acquisitions. We have recommended that this be done.

Fixed Asset Management

Our overall conclusion is that the physical controls relating to fixed assets are deficient and should be improved where practical. The accounting controls relating to fixed assets are not adequate.

While there are policies and procedures on the addition, disposal and use of fixed assets, the overall policies and procedures on inspection, control, monitoring and accounting for fixed assets are inadequate.

We have recommended that the Hospital consider expanding and formalizing hospital-wide policies and procedures for this area, and establishing responsibilities for monitoring and reporting of fixed assets.

Purchasing

We found that there are policies and procedures in place to help ensure that goods and services are acquired at reasonable cost, but many of these are informal and not well-documented.

The Hospital participates in group/bulk purchasing and uses tendering and quotations to procure goods and services. Staff appear to be adequately trained and supervised.

Monitoring and control of the purchasing function is informal and in most instances not documented. We concluded that the system to monitor and control purchasing was not adequate and improvements should be considered.

Management Information Systems (MIS)

We concluded that MIS resources are being used, controlled and protected in a cost-effective way. The Hospital has implemented the new MIS system recommended by DOHF for all hospitals.

The MIS provides financial and statistical information to management to evaluate results in key areas. The information is presented to senior management and the Board on a monthly basis.

The needs and expectations of users are being met, although areas were identified where further enhancement of the MIS would provide benefits.

Human Resource Management – Workload Productivity

Hospital management forecasts, on an annual basis, nursing workload activity and the number of related nursing staff positions required for each nursing department.

There are no formal standards in place to measure workload productivity, although there is an ongoing informal evaluation of staffing levels. The GRASP workload measurement system was introduced in early 1990 for all nursing areas. There are plans to fully implement this system by early 1992. This system will provide a formal method of evaluating workload productivity.

There are policies and procedures covering absenteeism, overtime and call backs. These items are authorized, monitored and periodically reported to the Board. We have recommended the reporting of these items to the Board be completed more frequently.

Policies and Procedures

The Hospital has formalized policies and procedures for most of the key areas of its operations. Senior management and the Board adequately monitor key statistical information and results on a regular basis.

Concluding Remarks

Our overall conclusion regarding the financial management of the Hospital is favourable. Improvements were recommended in a number of areas, particularly regarding capital expenditure planning, controls for fixed assets, and monitoring of the purchasing function.

The fact that our report to the Hospital contained a number of suggestions for improvement does not negate the overall conclusion.

SCHOOL BOARDS MANAGEMENT OF HUMAN RESOURCES AND FOLLOW-UP TO 1990 AUDIT

Background

This assignment was conducted under the transfer payment mandate given to this Office in 1988 under Section 15 of the Auditor General Act.

From October 1989 to October 1990 we completed reviews of the operations of four district school boards. We focused mainly on financial management and related areas. Those assignments were reported in the 1990 Report of the Auditor General, and a brief follow-up to that assignment is reported in this article, page 94.

The current year's assignment focused on the area of human resource management since it is the most significant expenditure by the boards. School board operating expenditures for 1990 totalled approximately $700 million. Teachers' salaries accounted for approximately 64% of board operating expenditures, while total salaries and employee benefits accounted for 85%.

This is the first phase of a two-phase assignment dealing with human resource management. The first phase consisted mainly of the gathering of preliminary information about the human resource management policies and practices of the boards. The second phase will consist of field visits to selected boards to conduct detailed work in this area. These visits are planned for 1992.

This article presents the results of our research to date, and does not include recommendations for the Department of Education or for the district school boards. Any recommendations we may have will be made after completion of the second phase of this assignment.

Results in Brief

The following are the principal observations resulting from this assignment.

- Boards of similar size have large variations in numbers of staff employed in various administrative positions. Some differences can be explained by the availability of non-mandatory municipal funding at certain boards.

- According to the Education Act, school boards are responsible for the hiring and payment of staff. The Department has no input into these decisions. The Department collects information about numbers of administrative staff who are licensed teachers, but does not have complete information in a centralized data base on numbers of non-licensed staff.

- There are significant differences among the boards in the terms and conditions governing sabbaticals and educational leaves for teachers including differences in salaries paid, length of service required for qualification, and repayment provisions for teachers who do not return to the board. These differences are inevitable under the provisions of the Teachers' Collective Bargaining Act which indicates that sabbatical leaves are negotiated with the Nova Scotia Teachers' Union (NSTU) at a local level by the school boards.

- There are significant differences among the boards in performance appraisal practices for teachers and administrators.

- Training and development for administrative staff relies mainly on in-service sessions and conferences. Few boards appear to have comprehensive training strategies for administrators.

- The Department of Education has developed a detailed action plan to address the recommendations in our 1990 Annual Report.

Audit Scope

The primary objectives of this assignment were:

- to compare numbers of administrative staff at the boards taking into account enrolment differences; and

- to compile information on certain human resource management practices of the boards.

The Department of Education's Research Division maintains statistics for numbers of teachers by position by board. Our approach for administrators who are licensed teachers (for example, Superintendents and Supervisors) was to compare the staffing levels by board in each position on the basis of enrolments.

For information relating to administrative staff who are not licensed teachers (such as Chief Financial Officers, secretaries, accountants), we sent a questionnaire to 21 boards. We did not send a questionnaire to Conseil d'école du Grand-Havre. The questionnaire also requested information on certain human resource management practices. We received responses from 20 of the 21 boards. We also examined certain sections of the 21 local agreements between the school boards and the NSTU.

Principal Findings

Teachers in Administrative Positions

We compared the numbers of teachers in administrative positions at the boards. Our comparison included all teachers who are paid a supervisory allowance, except principals and vice-principals (superintendents, assistant superintendents, subsystem supervisors, supervisors, and system consultants). Our comparisons were based on the ratio of students to teacher-administrators at each board.

In boards of similar size, there are large variations in numbers of staff employed in various administrative positions. Some of these differences can be explained by the availability of non-mandatory municipal funding at certain boards.

The number of students per teacher-administrator varies from a low of 441 to a high of 1542, with an average of 837. There is no obvious relationship between board size or location and numbers of administrative staff. Whether the board is urban or rural does not necessarily impact the level of this ratio.

We also compared the number of teachers (including classroom and resource teachers, principals and vice-principals) per teacher-administrator at each board. This ratio varies from a low of 29.2 at one board to a high of 105, with an average of 53.

In 1985-86, 193 (1.80%) of the teachers in Nova Scotia were classified as administrators (excluding principals and vice-principals). In 1990-91, the figure had risen to 198 (1.85%) although during that time period there had been a decrease in the number of students from 172,614 to 165,739. The number of students per administrator therefore decreased from 894 to 837 (a decline of 6%).

Non-teachers in Administrative Positions

According to the Education Act, school boards are responsible for the hiring and payment of administrative staff. The Department does not have complete information in a centralized data base on numbers of administrative staff who are not licensed teachers.

Our questionnaire requested information relating to the number of secretarial staff at each board who are classified as district board management (not in the schools). We did not want the number and size of schools at the board to influence our comparison. Secretaries classified as district board management would vary somewhat with the number of management personnel at the board and enrolments. The average number of students per secretary varies from 491 to 2,226. The average is 941.

In total, the 20 responding boards have 100 full-time equivalents which they consider to be accounting staff (including accountants, clerks, computer operators and secretaries devoted to the accounting function). The average is 1,527 students per accounting staff. We expected that this is an area in which there would be economies of scale. Therefore, we expected that larger boards would have a higher ratio of students to accounting staff than smaller boards. Although our results generally confirmed this, there were some exceptions.

Educational Assistants

The 20 reporting school boards spent a total of $5.4 million for educational assistants during the 1990 fiscal year. The hours of educational assistants' time per student per year varies from a low of 1 hour at one board to a high of 8.4 hours at another board, with an average of 4 hours. The salaries paid to educational assistants vary from a low of $6-$7 per hour at several boards to a high of $9.59-$14.69 per hour in one rural board.

Other Human Resource Management Practices

All boards have a policy with respect to the performance appraisal of teachers. There are differences in those policies since performance appraisal is a board responsibility according to the Regulations under the Education Act. The responses to our questionnaire relating to performance appraisal for teachers indicated a broad range of practices. Appraisals of permanent contract teachers are conducted frequently at some boards (once a year) and never at one board, with the most common response being once every three years. Appraisals of probationary contract teachers and teachers holding interim licenses are conducted more often. When asked how often the performance of administrators was appraised, the responses also varied from never to once a year.

The Department of Education launched a teacher effectiveness program in 1986 to help principals conduct more effective formative evaluation of teachers. This program included conducting workshops throughout the Province.

We inquired about training for the board's senior administrative staff. Most boards appear to focus on in-service sessions and conferences to provide training.

We reviewed the provisions relating to sabbatical leaves in the local agreements between the school boards and the NSTU. There were differences among the boards in every area that we examined. These differences are inevitable under the provisions of the Teachers' Collective Bargaining Act which indicates that sabbatical leaves are negotiated with the NSTU at a local level by the school boards.

Salaries vary from 75% to 100% of the teacher's regular salary. The number of years service required prior to a sabbatical varies from three to seven years. All but three boards require a written proposal stating the purpose of leave prior to granting the sabbatical. All boards require that the teacher return to the board after the sabbatical for a period of two to three years. All but one board require that the teacher repay the salary received during the sabbatical year if the teacher does not return. The differences among boards in the provisions relating to sabbaticals are significant.

Follow-up to 1990 Annual Report

The Department of Education has developed a comprehensive action plan to address the recommendations in our 1990 Annual Report article. A detailed list of actions has been prepared for each recommendation, with responsibilities and time guidelines assigned to appropriate individuals. Regular status reports are prepared and forwarded to the Deputy Minister. A phased approach has been initiated by the Department for addressing the most significant recommendation relating to the development of an Accountability Framework for Public Education in Nova Scotia.

Concluding Remarks

There are major variations between the boards in every area of human resource management about which we inquired. These variations cannot be explained by differences in the size or location of the boards, although some may be explained by the availability of non-mandatory municipal funding.

Under the Education Act and the Teachers' Collective Bargaining Act school boards are autonomous in many areas. Consequently, there are differences in policies and decisions.

We believe that further audit work in the area of human resource management in school boards may result in improved economy and efficiency in expenditures on human resources at certain boards. By conducting detailed audits of several boards, we will be able to compare the human resource management policies and practices of each with others in the Province and make appropriate recommendations.

The Department of Education acknowledges the need for further work in human resource management at the school boards, and has made a commitment to increase its monitoring of this area in the future.

* * * * * *

SPECIAL DEPARTMENTAL REVIEWS

INTRODUCTION

Each year this Office performs broad scope reviews in certain areas of departments of government. These reviews may cover selected activities of a department, or the review of an activity or function on a multi-department or government-wide basis. Certain of these areas or functions, which are subject to a special audit review by this Office, are scheduled for review on a cyclical basis every three to five years. Others are subject to review less frequently.

During the year four different types of special audit reviews were conducted, comprising the following twelve audit assignments.

There was one multi-departmental assignment.

Government-Wide Departmental Audit – Revenues, Expenditures, Systems and Controls

There were two assignments relating to areas where two departments share responsibility.

Community Services and Health and Fitness

Hospitals and Homes for Special Care – Shared Services
Pharmacare Program

Within agencies and departments of government, eight in-depth reviews of specific programs and projects were carried out.

Department of Agriculture and Marketing – Nova Scotia Agricultural College

Department of Finance – Provincial Tax Commission

Department of Health and Fitness – Medical Services Insurance

Department of Natural Resources – Mines and Minerals, and Energy Branches

Department of Solicitor General – Result Indicators and Workload Productivity

Teachers' Pension Commission – A special review of accountabilities and responsibilities related to the Teachers' Pension Fund

Department of Transportation and Communications – Registry of Motor Vehicles

Department of Transportation and Communications – Result Indicators and Workload Productivity

A follow-up review of a matter reported upon in 1990 was also conducted.

Project Management Function – New Computer Systems

In addition to the special audits in the departments of government, as listed above, there were several assignments of a broad scope nature conducted in crown agencies

and corporations for which this Office is not the appointed auditor, as well as in entities which are the recipients of transfer payment grants and assistance. These audits are reported upon in separate sections of this Report entitled "Crown Agencies and Corporations" and "Transfer Payment Reviews".

DEPARTMENT OF AGRICULTURE AND MARKETING NOVA SCOTIA AGRICULTURAL COLLEGE

Background

The Nova Scotia Agricultural College is primarily responsible for the education of students from the four Atlantic Provinces in programs such as agriculture, engineering, pre-veterinary sciences, and various technologies. It was officially opened in 1905, and operates as a part of the Department of Agriculture and Marketing.

The College employs approximately 200 full-time staff and has approximately 700 full and part-time students. Total operating expenditures for 1990-91 were $13.8 million, which is 29% of the Department's total ordinary expenditures of $47.6 million.

In 1990-91 the Province funded 65% of the College's total expenditures through a university assistance grant and the operating budget of the Department. Other revenue sources include tuitions, residence fees and recoveries from other Atlantic Provinces based on the cost of providing education to their students.

Results in Brief

The following are the principal observations and conclusions resulting from our review of the Nova Scotia Agricultural College.

- There is uncertainty concerning the relative roles and responsibilities of the College and the Financial Services Branch of the Department.
- Many financial reports used by the College are inadequate.
- The capital expenditure function is satisfactory but is hindered due to the budgetary constraints of the Department of Government Services and uncertainty as to which entity is responsible for certain types of projects.
- Not all costs incurred on behalf of the College are allocated to and reported by the College. Conversely, certain costs are incurred by the College for the benefit of other branches of the Department.

Audit Scope

We reviewed six areas of operation and evaluated the systems and controls in each. Our objectives were to assess the:

- financial management process, including planning, budgeting, accounting, reporting and monitoring;
- policies and procedures relating to purchasing, capital expenditure management, and the use and control of fixed assets;
- management and control of personnel costs; and
- completeness of the financial reports, to determine if all costs of the College are reported and if the reports include only costs related to the College.

Principal Findings

Financial Management

We found that the College's goals, priorities, and plans are defined but they are not formalized in a comprehensive document which can be revised on a regular basis.

The College follows government-wide financial management policies and guidelines. Additional internal policies are developed through committee processes, and we suggested that these policies be collected in one place, such as a manual, for ease of reference.

There are clearly defined responsibilities and accountabilities within the College. We found uncertainty, however, concerning the relative role and responsibilities of the College and the Financial Services Branch of the Department regarding financial management and control.

We noted significant deficiencies in the financial reports of the College. Detailed financial reports are not produced on a timely basis at fiscal year-end, or for the first two months of the new year. The financial reports used by senior management are too detailed to be useful. The financial reports for research projects are not adequately organized or summarized. The chart of accounts does not provide the detail needed to manage certain revenue areas.

The College's reports on research projects include projects which are not the responsibility of the College. Furthermore, the revenues and expenditures of research projects (approximately $2.3 million in 1990-91) are not included in the College's general financial reports or the Public Accounts and the Estimates of the Province.

Financial reports of the College are produced by the Department of Finance and administered by the Financial Services Branch of the Department of Agriculture and Marketing. Thus, the reports are limited by the parameters of an accounting system designed to serve all government departments and their various operations, as well as by the scarce human and other resources available to customize reports to suit the College's unique requirements.

Capital Expenditures

The College has a good planning and approval process for capital expenditures. There is an awareness of future needs, and measures are taken to ensure that proposed construction or alteration projects meet those needs.

The College relies on the Department of Government Services for funding and performing most of this work. Although funding for such projects is scarce, there appears to be cooperation and a good working relationship between the two entities. Nonetheless, there is some uncertainty as to which types of projects are the responsibility of the College, and which are the responsibility of Government Services. We suggested that College management discuss this matter with Government Services officials to reach an agreement.

In our opinion, senior management involvement in the capital expenditure process is adequate, but we suggested that specific policies and guidelines in this area be formally documented.

Fixed Asset Utilization and Control

Control over fixed assets is adequate but policies and procedures for fixed assets have not been clearly defined and communicated to staff. Also, there is no system to monitor the costs and operational problems associated with major fixed assets. Such a system would provide information for making decisions about maintenance and future purchases.

Personnel Costs

The personnel function is well planned and managed. There are long-term priorities for the staffing of positions. Remuneration is based on appropriately approved and documented scales and collective agreements.

Curriculum and program changes follow a well-defined process. The review and challenge process is thorough and all proposed changes must meet the College's priorities and goals before they are accepted.

We have identified the need for improved reporting of faculty workloads.

Purchasing Practices

There is an established and well controlled purchasing function which provides for the acquisition of goods and services at reasonable prices. Most purchasing practices are dictated by government-wide policies, and most significant purchases are made by the Nova Scotia Government Purchasing Agency.

Responsibilities and accountabilities for purchasing are clearly defined and documented. We have recommended the development and implementation of a policy on conflict of interest.

Allocation and Recovery of Costs

We found that not all costs incurred on behalf of the College are allocated to and reported by the College. These include such items as insurance, property taxes, construction, and accounting and financial services.

Conversely, certain costs are incurred by the College for the benefit of other branches of the Department. These include such items as computer centre operations, snow removal and grounds maintenance.

We suggested that, where practical, unallocated costs be determined and significant financial reports of the College be adjusted. The information would:

- provide the College with a better indication of the costs of fulfilling its mandate;
- result in more accurate reports to outside agencies;
- provide more complete information for calculating recoveries from other Atlantic Provinces; and
- make the financial results of College operations more comparable to other educational institutions.

Due to the fact that not all costs are reported by the College, the costs of out-of-province student education and certain ancillary services may not be fully recovered.

Concluding Remarks

The College is part of a government department and is subject to most of the policies and guidelines of central government agencies and the Department. There is confusion as to certain key roles and responsibilities of College management, and how they relate to the roles and responsibilities of the Department and other government entities.

Financial reports are not adequate because they are produced by a government-wide system and there are insufficient resources to customize the reports to meet the College's particular needs. As well, the College's reports are not complete and accurate, as the result of shared services for which costs are not fully allocated.

We have made recommendations to better define the College's role and responsibilities as they relate to other government entities, and to work to improve or supplement reports that are produced for the College.

DEPARTMENTS OF COMMUNITY SERVICES AND HEALTH AND FITNESS HOSPITALS AND HOMES FOR SPECIAL CARE – SHARED SERVICES

Background

Many communities throughout Nova Scotia have both a hospital and a nursing home or home for the aged. This assignment was undertaken to determine whether

there may be opportunities to operate more economically and efficiently by sharing services between the two types of entities.

The Department of Health and Fitness provides nearly all funding for the approximately fifty hospitals in Nova Scotia. For the 1991-92 fiscal year, the Department's estimate for these expenditures is $733 million. This figure includes both inpatient and outpatient services.

The Department of Community Services and local municipal units share the cost of maintaining residents, who are unable to pay, in homes for special care. The estimated cost to the Department for all homes for special care is $98.3 million for the 1991-92 fiscal year. Homes for special care include homes for the aged, nursing homes, adult residential centres, group homes, residential care facilities, and regional rehabilitation centres. For this assignment, we limited our scope to nursing homes and homes for the aged.

Nursing homes and homes for the aged are owned privately or by municipal units. There are also private-paying residents of homes. Because the Department of Community Services does not fund all costs for homes, there are additional stakeholders in homes (homes, municipalities and residents) who must be convinced that changes are going to result in cost savings before changes can be implemented.

This assignment was conducted under Section 8(c) of the Auditor General Act which gives the Auditor General the mandate to ascertain whether, in his opinion, public money has been expended with due regard for economy and efficiency.

Results in Brief

The following are our principal observations from this assignment.

- The Departments of Community Services and Health and Fitness have made no attempt to quantify cost savings of current or potential shared services. It was not possible for us to quantify savings because of a lack of data at the Departments.

- We visited Yarmouth and Middle Musquodoboit where, in both communities, a hospital and nursing home share administrations, and certain services. Management of the facilities in both communities believe that sharing is cost effective and has many other qualitative benefits.

- Some individuals with whom we spoke believe there is a lack of communication and co-operation between the two government departments involved. This can result in placing jurisdictional concerns ahead of initiatives that could benefit the system as a whole.

- It appears that a key to successful sharing is a common administration or two administrations that can work together in a spirit of co-operation.

Audit Scope

The objective of our audit was to review hospitals and nursing homes/homes for the aged to determine whether there are opportunities for sharing certain services, such as administration, dietary, laundry and housekeeping, which could result in savings to the Province, or better use of existing dollars.

Our review did not include regional hospitals. Our review of homes for special care was limited to non-profit homes for the aged and nursing homes. We refer to these facilities as homes during the remainder of this article. For both hospitals and homes, we looked only at facilities with less than 100 beds. There are 17 communities in the Province which have both a hospital and a home with less than 100 beds.

Principal Findings

Adequacy of Information at Departments

The Departments of Community Services and Health and Fitness have made no attempt to quantify cost savings of shared or potential shared services. It was not possible for us to quantify savings because of a lack of data at the Departments.

The Department of Health and Fitness has recently started preparing a report of comparative performance indicators. This report contains many of the statistics we required, but comparisons are not yet considered by the Department to be reliable. The Department plans to improve the reliability of the report.

The Department of Community Services does not have comparative data for the homes except for the dietary area. There are inconsistencies in the presentation of financial information by the homes which make it difficult to compare information from different facilities. The Department does not have comparative performance indicators similar to those at the Department of Health and Fitness.

We only found a limited number of cases of shared services that we could use for comparative purposes.

Benefits of Sharing

We visited Yarmouth and Middle Musquodoboit where each has a hospital and a home on the same site and the two facilities share one administration and certain other services. Both the home and the hospital in Yarmouth have more than 100 beds. The facilities were included in our review, although they do not fall within our stated scope, to provide information about a long-standing sharing arrangement. For facilities under 100 beds, the only comprehensive sharing arrangement is in Middle Musquodoboit, where sharing started in June 1991.

In Yarmouth and Middle Musquodoboit, the sharing arrangements were highly praised by management. The benefits of sharing mentioned at the facilities included:

- There is greater flexibility in staffing.
- Sharing is cost-effective because of the benefits of volume discounts.
- There is increased expertise available to both facilities.
- Capital equipment can be more fully utilized.
- More in-services and training can be offered to staff.
- There are more resources to draw from for committees.
- The residents of the homes and their families feel more secure with the hospital close to the home.

Problems with Sharing

Management of the facilities we visited indicated that there are some difficulties in dealing with two government departments. Two different budget submissions must be prepared under two sets of guidelines.

Staff at the Departments also put forward these problems:

- Hospitals and homes have different salary scales for employees. In any amalgamation, the Departments believe that salaries would probably settle at the highest level, thus reducing or eliminating potential savings.
- The Department of Community Services perceives the needs of homes as being different from those of the hospitals because residents are long-term. The Department believes that one administration may have difficulty in meeting both facilities' needs. This was effectively overcome by the facilities which we visited.
- Both Departments suggest that implementing sharing in older facilities may be very difficult because of existing staff.

Some with whom we spoke perceive that each Department currently tries to protect its territory, focusing on what is good for the Department rather than on what is best for the patients/residents and the Province as a whole.

Suggested Improvements

We recommend that the Departments of Community Services and Health and Fitness determine where shared services are feasible and could result in savings to the Province.

This is particularly important where savings are obvious, such as shared administration for small facilities. Sharing should be considered when new facilities are built or when key people in a facility retire or resign, because this is the opportune time to make changes. We have been informed that this has taken place in recent construction initiatives, although the Departments do not actively seek sites to build new facilities. Rather, they react to requests and demonstrated needs.

The Departments of Health and Fitness and Community Services should take the initiative in encouraging and promoting shared services where there are potential savings. In both Yarmouth and Middle Musquodoboit, the initiative came from the communities and Boards of the facilities, not from the Province.

The Departments have commenced discussions on a joint management arrangement between an existing hospital and a new nursing home planned for Cumberland County. The Department of Health and Fitness has recently held discussions with two hospitals concerning shared services with nursing homes.

Flexibility in funding arrangements to encourage sharing should be considered. This is especially important if one facility already has excess capacity and there is duplication of effort. The cost to the purchasing facility must be reasonable but also provide the other facility with recovery of a reasonable portion of its expenses. The total cost to the Province should be the determining factor.

Concluding Remarks

The Departments of Community Services and Health and Fitness have not made any attempt to quantify potential cost savings from shared services. It is not possible for us to quantify savings which are attributable to sharing because of deficiencies in the information available at the Departments.

There are potential savings which are obvious. Examples include having one administration for two small facilities and using excess capacity in areas such as dietary and laundry, rather than installing new equipment.

To provide for the expenditure of public money with due regard for economy and efficiency, the Departments should determine where shared services are feasible and could result in cost savings to the Province.

The difficulties in administering sharing arrangements can be overcome successfully if the willingness to do so exists. The Yarmouth and Middle Musquodoboit arrangements are examples of this. The key to overcoming the difficulties is adequate communication and a spirit of co-operation by all parties involved.

DEPARTMENTS OF COMMUNITY SERVICES AND HEALTH AND FITNESS PHARMACARE PROGRAM

Background

The Departments of Health and Fitness and Community Services are responsible for the pharmacare programs for seniors and family benefit recipients respectively. In addition, Health is responsible for four special pharmacare programs – cystic fibrosis, diabetes insipidus, cancer society and growth hormones. Maritime Medical Care Inc. (MMC) assesses and pays claims, and performs certain administrative functions under agreement with the Province.

Recent organizational changes have impacted the pharmacare programs. Effective September 1, 1991 the Health Services and Insurance Commission (HSIC) mandate of policy setting and tariff development was transferred to the newly formed Insured Professional Services Division of Health. In addition, the research and statistics functions previously at MMC were transferred to Insured Professional Services and a pharmacy consultant is now on staff.

For the year ended March 31, 1991 there were approximately 2.5 million prescriptions dispensed for seniors and .5 million for disabled family benefit recipients. Approximately 105,000 seniors and approximately 16,000 disabled family benefit recipients received insured services under the programs.

The Community Services program was expanded effective September 1, 1991 to include all family benefit recipients and their dependents, approximately 38,000 additional people. Except for disabled family benefit recipients, all persons covered by the programs are now subject to a co-pay provision.

Recent program expenditures, excluding administration costs, are summarized below.

	1990	1991
	(in $ millions)	
Drug Costs		
Seniors	$51.8	$46.4
Family Benefits	7.7	8.5
Special	1.2	1.3
	60.7	56.2
Dispensing Fees		
Seniors	20.6	20.2
Family Benefits	3.2	3.7
Special	–	–
	23.8	23.9
	$84.5	$80.1

The 1991-92 Estimates include expenditures budgeted at $61.7 and $20.0 million for Health and Community Services respectively. The Nova Scotia Royal Commission on Health Care made a number of recommendations impacting on the pharmacare programs, most of which have been addressed in *Health Strategy for the Nineties: Managing Better Health*, released by Government in 1990.

Results in Brief

The following are the principal observations and conclusions resulting from our examination.

- Nothing came to our attention that indicated non-compliance with the statutory authorities and requirements of these programs.

- Program cost-saving measures have been introduced including co-pay provisions, setting maximum allowable costs to be reimbursed for certain drugs, and establishment of a committee to review eligibility of drugs.

- The committee established to review eligibility of drugs has concentrated on new drugs being introduced, but has no formal schedule for the review of existing coverage of drugs.

- The financial information and reports provided by MMC were not considered adequate by Insured Professional Services management. Most of the required reporting of the cost of insured services is now prepared by that Division.

- Health's internal audit coverage of the programs and related costs should be expanded. The planning for and results of the Maritime Medical Care audit function should be subject to more involvement and review by Insured Professional Services, as well as by Health's internal audit function.

Audit Scope

Our objective was to review the administrative management policies and control procedures.

This was the Office's first broad scope review of the pharmacare programs. It was conducted under authority of Section 8 of the Auditor General Act.

Principal Findings

Policies, Planning and Coverage

- Health and Community Services have defined policies for the pharmacare programs. Policy manuals exist and are reasonably current.

- A strategic plan for insured health services, including pharmacare, had been prepared by HSIC staff in 1988. It is not being followed and should be reviewed for possible change. Community Services is in the process of preparing an updated departmental strategic plan, an element of which will be for its pharmacare program.

- The Community Services pharmacare program was expanded September 1, 1991 to cover all family benefit recipients. There was no prior impact analysis completed to determine the effect, if any, on MMC's administrative costs. As of December 1991, the effect on these costs had still not been fully determined.

- The Royal Commission on Health Care noted that *"Nova Scotia's Pharmacare Programme is now the most expensive provincial drug benefit programme in the country on the basis of cost per insured person."* We have been informed that there are significant differences between Nova Scotia's and other provinces' programs, especially in terms of coverage and eligibility. However, the nature and extent of these differences had not been fully studied or analysed.

Prior to January 1, 1991 all prescription drugs and some over-the-counter drugs were eligible for coverage. Recent initiatives undertaken to reduce the program cost include:

- introduction of a co-pay provision;
- establishment of the Benefits Evaluation Committee to recommend coverage of new drugs and to review existing drugs covered by the programs; and
- setting maximum allowable costs that will be reimbursed for interchangeable prescription drugs, better known as generic drugs.

- Health recently commenced an internal study to compare the Nova Scotia programs with the program in Saskatchewan. In our view, such comparative analysis is required to identify opportunities for future cost control.

  Furthermore, certain key resources and responsibilities were transferred to Health from MMC as recommended by the Royal Commission on Health Care. These should allow Health through its Insured Professional Services Division to direct more effort to identifying opportunities for controlling or reducing programs and related costs.

- Generic drugs represent approximately 20% of all drugs eligible for coverage. Pharmacies are reimbursed a maximum allowable cost (MAC) for generic drugs. The MAC, based on the provincial average cost of the lowest priced generic drug in the category, is set semi-annually by Health.

  The Province reimburses the actual acquisition cost for the 80% of eligible drugs that do not have a generic equivalent.

  The MAC can be in excess of the actual acquisition cost of some pharmacies. Information is not available to determine this excess cost to the Province. For generic drugs prescribed, pharmacies do not report the actual acquisition cost on their claims to MMC.

  Consideration should be given to having pharmacies report actual acquisition cost information for all prescriptions claimed.

  This would allow an appropriate comparison and monitoring of the MAC versus actual acquisition costs.

- The Benefits Evaluation Committee was established to review new prescription drugs and make recommendations for coverage. The Committee includes physicians and pharmacists and has representation from Health, the academic community, and the Pharmacy Society. Non-government members are paid a per diem for their attendance, which currently is approximately $25 per hour.

  The Benefits Evaluation Committee is also reviewing the continued eligibility of drugs covered by the programs. Although recommendations have been made on certain products, a schedule has not been prepared for completing the timely review of drugs currently covered. The process

could take up to five years to complete. There should be a plan and appropriate schedule developed, including a prioritization of items to be reviewed.

Audit Function

- In addition to our legislated audit mandate, there are three separate audit functions – Health, Community Services, and MMC – that have some audit involvement with the programs.

  The roles, responsibilities and coverage of these three groups have not been clearly defined, co-ordinated and integrated as they relate to the pharmacare programs. Health's internal audit function should play a leading role in planning and co-ordinating the detailed audit coverage for the pharmacare programs. The following allocation of audit responsibilities should be considered.

  - Health's internal audit function, with input from the audit functions at Community Services and MMC, as well as others, should develop a comprehensive strategy and plan for the cost-effective audit coverage of the pharmacare programs' expenditures and administrative costs. This strategy and plan should deal not only with activities at MMC, but also the related management, accounting and control functions at Health.

  - Community Services' internal audit function should continue to limit its efforts concerning pharmacare to verifying eligibility of family benefit recipients. It should continue to rely on the coverage and results of the other audit functions.

  - The audit function at MMC should continue its primary focus for pharmacare on the audit of pharmacies, and the audit of actual acquisition costs.

- Formal audit policies and standards should be defined for the planning, conduct, review and reporting of audit activities at Health and MMC. These should include guidelines for sample selection, testing and evaluation of results, as well as audit working paper file preparation and review. Furthermore, in our view, it is appropriate for the results of MMC audit activities to be reported to Insured Professional Services and to be subject to review by Health's internal audit function.

- The internal auditor, who had been with HSIC before the 1991 organizational changes, had completed reviews of the 1989 and 1990 fiscal years' administrative costs claimed by MMC, which included costs associated with pharmacare. Reports on these audits identified a number of specific matters or concerns relating to the MMC costs allocated to the Province.

  The 1989 audit represented the initial audit of MMC administration expenses and was completed in March, 1990. Based upon the 1989 audit, MMC revised its method of calculating depreciation. This resulted in a reduction in administrative expenses charged to the programs. The audit

report for the year ended March 31, 1990, although reviewed by MMC, has not been released. It is being held pending finalization of a new administrative agreement.

- The HSIC internal auditor had been sitting on various operational committees. To ensure an appropriate degree of independence and objectivity from areas subject to future audit, this should be phased out.

Other Matters

Based on recent audit results of this Office, and supplemented by enquiries as part of this assignment, we provide the following additional summary comments.

- The administrative agreement with MMC has been in effect since 1984. Disagreements relating to the interpretation of the agreement have resulted in administrative and cost concerns which are not yet fully resolved.

  A new administrative agreement had not been finalized or signed at the time of preparing this article. However, a draft agreement does provide more guidelines for resolving such differences.

- A review of internal controls at MMC and Community Services was carried out by Community Services internal auditors in March 1988. Controls were considered adequate and reliable. This conclusion is consistent with the results of our audits in recent years.

- Improvements in controls and procedures should be considered in the following areas:

  - segregation of administrative costs billed by MMC, so that the total costs of the seniors' programs can be identified;

  - provision for an independent review of changes made to computerized master files; and

  - accrual at year-end by Community Services (like Health) of its program costs incurred but not yet claimed by the pharmacies.

Concluding Remarks

The pharmacare programs represent a significant component of the health services expenditures of the Province. It is estimated that the combined program costs, excluding administrative expenses, for the Departments of Health and Fitness and Community Services will exceed $81 million for the 1991-92 fiscal year.

There have been recent changes to the programs, in terms of the coverage and administrative arrangements, directed at improving overall management and control, as well as reducing the related costs. The implementation of co-pay provisions and the establishment of a Benefits Evaluation Committee to review new and existing drug coverage are noteworthy.

The transfer of certain staff resources and functions from Maritime Medical Care Inc. to the Department of Health and Fitness effective September 1, 1991 should assist in improved administration and control. The finalization and signing of a new administrative agreement, which has been under negotiation for approximately a year and a half, should provide a basis for co-ordination among the various parties and improved control of the pharmacare programs.

DEPARTMENT OF FINANCE
PROVINCIAL TAX COMMISSION

Background

The Provincial Tax Commission, Department of Finance, comprises two divisions: the Health Services Tax Division and the Gasoline and Diesel Oil Tax Division. The Health Services Tax Division is also responsible for the collection of Tobacco Tax. The combined total of tax revenues collected by the Commission in the fiscal year ended March 31, 1991 was $894 million.

The responsibilities of the Commission include registration of vendors and other taxpayers, provision of information concerning provincial taxes, monitoring and collecting outstanding taxes receivable, auditing for compliance with legislation, and various related administrative activities.

A review of selected activities of the Provincial Tax Commission was completed early in 1991. This audit focused on the Health Services Tax Division and did not cover the Gasoline and Diesel Oil Tax Division.

Results In Brief

The following are the major observations resulting from this audit.

- The collection procedures used for Health Services Tax are adequate, and controls exist to ensure that remittances are deposited promptly and credited to the proper vendor account.
- The Commission does not always obtain a signed agreement with a vendor when extended payment terms are arranged.
- Improvements could be made in the reconciliation procedures for cash receipts.
- Allowances for uncollectible taxes and account write-offs were adequately supported and properly approved, after reasonable collection efforts.
- Adequate controls exist for the monitoring and collection of Tobacco Tax revenues.

Audit Scope

The objectives of our audit were to:

- assess the adequacy of the collection procedures for Health Services Tax;
- determine if adequate controls exist to ensure Health Services Tax remittances are deposited promptly and credited to the proper vendor accounts;
- determine whether allowances and write-offs were adequately supported and properly approved, after reasonable collection efforts; and
- determine if adequate controls exist for the monitoring and collection of Tobacco Tax revenues.

Principal Findings

Account Monitoring

The collection procedures used by the Account Monitoring Section are adequate. Since the previous year's audit, we noted a significant improvement in the diligence and promptness of collection activities.

However, we suggested that the Commission needs to be more consistent in obtaining signed agreements with vendors when extended payment terms are arranged.

Remittances

Adequate controls exist to ensure that Health Services Tax remittances are deposited promptly and credited to the proper vendor accounts.

We have recommended improvements in the reconciliation procedures for cash receipts. We found adjustments resulting from these reconciliations are not always documented, and independent reviews of the reconciliations are not usually performed.

Allowances and Write-offs

We found allowances for uncollectible taxes, and write-offs of taxes receivable were adequately supported and properly approved, after reasonable collection efforts.

Tobacco Tax

Adequate controls exist for the monitoring and collection of Tobacco Tax revenues.

Concluding Remarks

Improvements in account monitoring at the Commission have been made during the last few years. Although we recommended some improvements in systems and

procedures, the collection of tax revenues by the Commission now appears to be adequately controlled.

GOVERNMENT-WIDE DEPARTMENTAL AUDIT

Background

Our practice in recent years has been to combine a large portion of our auditing of government departments into one major audit assignment. This audit includes an examination of revenues, expenses, control systems and compliance with legislation throughout government. Other departmental audits of a broad scope nature are reported in separate articles in this Annual Report.

Results in Brief

The following are the principal observations and conclusions resulting from this year's Government-Wide Departmental Audit.

- In general revenue, recovery and expenditure records of the Province are, in all material respects, complete and accurate.
- The Department of Government Services did not obtain formal approval from Executive Council and did not adequately document the reasons for leasing premises for the Department of Housing without tender.
- The Office of the Fire Marshal and the Occupational Health and Safety Division, both part of the Department of Labour, are not fulfilling the number of inspections required.
- We noted weaknesses in various departments concerning such matters as control over revenue, control over capital assets, and file documentation supporting decisions and payments.

Audit Scope

The general objective of the Government-Wide Departmental Audit was to obtain sufficient and appropriate audit evidence to support an opinion as to:

- the accuracy and completeness of accounting records;
- compliance with relevant legislation and policies; and
- the adequacy and proper operation of financial systems and controls.

To meet this objective we defined the following detailed goals:

- to verify that revenues and recoveries are complete, accurately stated, and disclosed in accordance with stated accounting policies;
- to verify that current and capital expenditures have occurred, are accurately stated, and are disclosed in accordance with stated accounting policies;
- to verify that revenues and recoveries have been collected, and expenditures made, in accordance with relevant legislation and policies;
- to verify that funds have been expended for the purposes for which they were appropriated; and
- to review financial systems and controls to determine whether they are adequate to ensure proper control over receipts, revenues and recoveries, purchases and disbursements, and capital assets.

The audit consisted of a number of components, each addressing different goals. In order to ensure appropriate coverage, yet provide as efficient an audit as possible, some areas are examined cyclically. Others are reviewed annually because they represent a large portion of the Province's total revenues and expenditures.

For 1990-91 about 93% of the Province's revenues were collected by the Department of Finance, and about 71% of the recoveries were collected by two departments (Health and Fitness, and Solicitor General). Because of this high concentration of revenues and recoveries in a few areas, they are examined annually.

Payroll, other current, and capital expenditures are audited on a government-wide basis. Accordingly, expenditures in these three areas in all departments are subject to testing.

We identified 36 divisions or programs in government departments comprising 84% of total estimated current expenditures as significant for audit purposes. Our objective is to examine each of these areas, for compliance with legislation and policy, over a four-year period. Five that are considerably larger than the others are reviewed annually. These five areas comprise 63% of total estimated current expenditures, and are in the following departments: Advanced Education and Job Training; Community Services; Education; Finance; and Health and Fitness.

Reviews of financial systems and controls are performed in the central accounting and administration division of each government department over the four-year cycle.

Principal Findings

In general, we concluded that the revenue, recovery and expenditure records of the Province are, in all material respects, complete and accurate. We reviewed various divisions and programs in nine departments for compliance with legislation and policies and found all but three to be complying as they should. Financial systems and controls were reviewed in eight departments and significant weaknesses were noted in seven of these departments.

This year's audit resulted in numerous findings and recommendations that were reported to the departments concerned. Several audit observations warrant reporting in this Annual Report.

Compliance

Two of our findings concerning compliance with legislation and policies are of greater significance than the others and are discussed below in more detail.

Department of Government Services – On February 16, 1989 Executive Council approved a new policy for the tendering of leased office accommodations. On December 31, 1989 the lease for the Department of Housing's accommodation expired. The Department received approval from the Space Utilization Committee of Management Board to increase the size of their premises, and since additional required space was not available in the building occupied by the Department, there was a need to relocate.

The Department of Government Services accepted a proposal to relocate to another building in downtown Dartmouth owned by a company affiliated with the owner of the previous building. There was no tendering for the new accommodations.

There is an exemption to the tendering policy for leases that aid municipal development. Management of Government Services indicated that the Department of Housing was moved to the other building to support a major building project that was expected to revitalize the downtown area of Dartmouth. Even though the Province's commitment to lease space was sought and given after the construction of the building began, the Department feels that providing the building with a key tenant improved its chances of success, and thereby improved the likelihood of Dartmouth's downtown revitalization.

We noted that Government Services' use of the municipal development exemption was not documented in its files and was not formally approved by Executive Council.

An analysis prepared by Government Services reports that using net present value techniques, the move cost approximately $1 million more over five years than if the Department of Housing had been able to remain at its current location in increased space for a further five years. However, there was nothing on file to indicate that the benefit to Dartmouth was calculated or examined in order to compare it to the additional cost. Consequently, we are not able to determine if Government Services showed due regard for economy when it executed this lease.

Department of Labour – The objective of our review of the Department of Labour was to determine if the Department's inspection activities were complying with relevant legislation and policies. We reviewed the operations of the Office of the Fire Marshal and the Occupational Health and Safety Division.

We found compliance problems in both operations. The Office of the Fire Marshal is not able to meet its requirements for fire hazard and liquid petroleum gas inspections. The Office is not able to perform the number of follow-up reviews that are warranted and is not formally monitoring the inspection activities assigned by legislation to the municipalities and the power utilities.

The Occupational Health and Safety Division is not able to conduct the required number of elevator and lift inspections.

Our Office has reviewed the inspection activity of the Department of Labour in the past. In our 1987 review we reported similar findings. Since the scope of our review did not entail a study of staffing and efficiency of inspections, we cannot state to what extent understaffing is the cause of the problem. It appears, however, that the Department does not have sufficient staff to perform the number of inspections required by legislation and policy. The Department is progressing with a computer system that should improve its inspection follow-up and monitoring activities.

Other Observations – Two other compliance matters came to our attention.

- One standard was set in 1970 for the measurements of fire-fighting equipment in Nova Scotia, but the Standard Hose Coupling Act was not revised to reflect the changes (Labour).

- Certain grants for recreation facilities development are not fully supported in the files with the appropriate leases, deeds and permits (Sport and Recreation Commission).

Internal Control

We noted several weaknesses in internal controls in the departments. The more significant instances are described below.

- Changes to the capital asset inventory are not recorded on a timely basis (Agriculture and Marketing).

- Software for a computerized accounting system is leased, and if its developer ceased operations the Department might not be able to maintain or modify the computer programs (Agriculture and Marketing).

- Mail books recording the receipt of funds by mail are not reconciled to deposit slips (Education).

- Documentation of the acquisition and transfer of capital assets is inadequate (Education).

- Control over the cash receipts function in three divisions of the Department is inadequate (Finance).

- The Provincial Tax Commission is not retaining documentary support for the waiving of penalty and interest on late submissions of taxes owing (Finance).

- Due to a lack of proper signatures and the absence of key information, we could not offer an opinion relating to the accuracy, completeness or approval of final payments to hospitals (Health and Fitness).

- Weaknesses exist in the Ambulance Subsidy Program relating to control over the accuracy of claims for ambulance services provided. The Depart-

ment is computerizing the claims process and developing additional verification procedures which should rectify most of these weaknesses (Health and Fitness).

- Separation of accounting duties in the revenue function is inadequate (Industry, Trade and Technology).

- Separation of accounting duties in the revenue function at Head Office and at the Lawrencetown Nursery is inadequate (Natural Resources).

- Not all capital assets are tagged with a unique identification number, and inventory counts are not performed on a timely basis or always conducted by someone independent of the person responsible for the custody of the assets (Natural Resources).

- Separation of accounting duties in the revenue function is inadequate (Small Business Development).

- Leases are executed without complete and proper legal documentation (Small Business Development).

- The acquisition and transfer of capital assets are not documented on the appropriate forms. Such transactions therefore are not recorded on the asset listings accurately or on a timely basis (Small Business Development).

Concluding Remarks

In all cases, the above findings have been reported to the departments concerned, along with recommendations from our Office for corrective action. In 1992 we shall follow up all findings noted above to determine whether the deficiencies have been corrected. We will report on any significant weaknesses that have not been addressed.

DEPARTMENT OF HEALTH AND FITNESS
MEDICAL SERVICES INSURANCE

Background

Medical Services Insurance (MSI) is a government-funded health insurance plan for Nova Scotia residents. It includes a wide range of services offered by physicians, dentists, optometrists and pharmacists. The annual cost of providing these services exceeds $330 million.

By agreement with the Minister of Health and Fitness, Maritime Medical Care Inc. (MMC) performs the administrative functions relating to MSI, including:

- registration of recipients and providers of insured services;
- communication with recipients and providers regarding their entitlements and responsibilities;
- receipt, assessment and payment of claims for insured services in accordance with established tariffs; and
- conduct of appropriate review and audit procedures related to claims.

Section 8 of the Auditor General Act requires that this Office examine money expended by or on behalf of the Province. Section 19(1) of the Health Services and Insurance Act provides that the Auditor General annually shall examine the books, records and accounts of MMC as they relate to duties, functions and responsibilities under that Act.

Our annual audit coverage at MMC varies depending on the areas we identify for audit and our available resources.

Results in Brief

The following summarizes the results of two audits completed at MMC in the past year.

- Adequate controls exist to ensure payments are made to eligible providers in accordance with policies and guidelines. However, the number of registered recipients continues to exceed the estimated population of the Province.
- A review of the method of allocating MMC's administrative expenses to the MSI plan had not been fully completed by management at the time of our audit. A new agreement between the Department of Health and Fitness and MMC, dealing with this and other matters, was subsequently drafted but has not yet been finalized.
- Adequate controls exist over the initial input and edit of electronic claims received from pharmacies and physicians.

Audit Scope

We completed an audit of selected areas of the MSI plan administered by MMC for the period from April 1, 1990 to October 31, 1990. Our objectives were to determine if adequate controls exist to ensure that payments are made only to eligible providers, for services to eligible recipients, in accordance with guidelines and policies. To determine the accuracy of master files for both providers and recipients, we confirmed certain demographic information for a sample of individuals.

We also assessed system controls over electronic claims submitted by pharmacies and physicians. This assignment was restricted to reviewing the initial input and edit control procedures for claims submitted on electronic media.

A separate review of the Province's pharmacare programs was also performed. The results of that assignment are summarized in a separate article commencing on page 106.

Principal Findings

Excess registered recipients

The master file for registered recipients contained over 1,023,000 persons compared to the estimated population for Nova Scotia, as of October 1, 1990, of 879,700. The master file was revised in 1985 and the excess has not increased significantly.

Maintaining the accuracy of the file is difficult for a number of reasons, including the fact that persons leaving the Province are under no obligation to notify MSI. MSI has informed us that there is a monthly interprovincial information exchange with all provinces except Quebec. This assists in identifying previous Nova Scotia residents who are to be deleted from the file. This information exchange started in the mid-1980's.

The problem is not unique to Nova Scotia. Most provinces have similar excesses, and are striving to improve the accuracy of their files.

The Department of Health and Fitness has requested MMC to identify initiatives to address this matter.

Administrative costs

In 1990 we recommended that the method of allocating administrative expenses between MMC and MSI be reviewed on a regular basis. At the time of this audit (early 1991), a review by management had commenced as part of efforts to review and update the administration agreement with MMC, but it was not fully complete.

Representatives of the Department of Health and Fitness and MMC have since met to discuss changes to the present agreement which has been in effect since July 1984. As of December 1991, a new agreement has been prepared, but not yet finalized and signed. It provides general guidelines on eligible administrative expenses and the process for charging the expenses to the Province.

Electronic claims

Approximately 69% of claims from pharmacies, and 27% of physician claims are received on electronic media. This percentage has increased and is expected to continue increasing over time. MMC has established separate input systems to receive and edit electronic claims data. Adequate controls exist over these systems.

Concluding Remarks

Although it may not be practical to maintain a completely accurate master file of registered recipients, MMC should continue to revise and update this file whenever information is available.

An appropriate basis for allocating MMC's administrative expenses to the MSI plan should be agreed upon and the new agreement finalized as soon as possible.

DEPARTMENT OF NATURAL RESOURCES MINES AND MINERALS AND ENERGY BRANCHES

Background

We commenced a review of certain areas of the Department of Mines and Energy prior to it combining with Lands and Forests to become the Department of Natural Resources. Optimum development of mineral resources and promotion of an efficient energy balance for the Province are major areas of policy in the Department.

These areas of policy and responsibility are administered by two branches within the Department, the Mines and Minerals Branch and the Energy Branch. These Branches have budget estimates of approximately 50 funded staff each and expenditures of $2.8 million and $3.4 million respectively for the fiscal year 1991-92.

Considerable resources are used to deliver various mineral development and energy projects. For example, projects under the Canada-Nova Scotia Cooperation Agreement on Mineral Development will cost the Province $4,050,000 during the period April 1, 1990 to March 31, 1992.

A major focus of the Energy Branch since 1979 has been to promote a reduction in Nova Scotia's dependence on imported petroleum. In 1979 Nova Scotia's primary energy demand was 76% imported petroleum while the national average was 43%. This heavy dependence on imported petroleum has created significant risks for Nova Scotia with respect to secure energy supplies and energy price stability.

The Department also delivers various assistance programs to the mining industry and for energy assistance. These activities totalled $7.5 million over the past five years.

Results in Brief

The following are the principal observations and conclusions resulting from our audit.

- We found no formal strategic plan for the Mines and Minerals Branch although steps are being taken by management to complete one.
- Short-range project planning for both Branches is adequate.

- There is a need for more complete documentation within project proposals for Mineral Development Agreement projects and for significant internal projects. The content of project proposals for professional service contracts and Coal Research Agreement projects was adequate.

- Progress reporting is generally adequate but is informal for internal projects.

- A formal post-completion evaluation by an independent consultant will be prepared at the conclusion of the Mineral Development Agreement. For other projects, written post-completion reports are not normally prepared.

- There is a well-developed planning process for promoting a reduced dependence on imported petroleum.

- Assistance programs relate clearly to Departmental objectives and are periodically evaluated.

Audit Scope

Our audit objectives were to:

- assess the project management practices of the Mines and Minerals, and Energy Branches;

- review the planning and monitoring processes used to promote a reduction in dependence on imported petroleum; and

- review, for 1986 to 1991, the budget subjects Energy Assistance and Assistance to the Mining Industry.

Principal Findings

Mines and Minerals Branch

There is no formal long-range strategic plan for the Branch, however the Branch is developing one. The majority of projects carried out within the Branch are under the Mineral Development Agreement. A list of approved projects is prepared annually by subcommittees and approved by the Management Committee. We recommended that subcommittee minutes be kept to better document the project selection process.

Project proposals are prepared for all projects, and proposal content is adequate. However, proposals do not include a list of tasks to be completed with corresponding deadline dates, and although approved by an appropriate committee, approval signatures are not documented.

Progress reporting is reasonably well documented, but there is a need for improvement in areas such as the reporting of actual progress to original plans, and the reasons for and impact of delays in completing projects.

There will be a post-completion evaluation of the Mineral Development Agreement by an independent consultant.

Energy Branch

The Branch has a well-developed long-range strategic plan which outlines broad policy options and specific energy initiatives. The plan is updated every five to six years. Senior management set and rank priorities of the Branch for the upcoming year. Projects are selected based on these priorities.

Documentation of project proposals for professional service contracts and Coal Research Agreement (CRA) projects is adequate. For internal projects, the use of project proposals and the content thereof varies. We have recommended that proposals be prepared for all significant internal projects and that the proposal include a schedule of specific tasks with corresponding completion dates. The proposals should record appropriate authorization signatures and should include an indication of the staff and other resources to be used.

There are progress reports for professional service contracts and CRA projects but not for internal projects. However, the content and timing of progress reports require improvement. We recommended that written progress reports be regularly prepared for all significant projects, comparing actual costs and progress to original goals, and specifically addressing completion delays.

Post-completion reports are not generally prepared. A post-completion review of CRA projects will be completed at a later date. We recommended preparation of written post-completion reports for all significant projects to address the achievement of objectives, evaluation of contractors, and actual versus planned deadline dates and costs.

The Branch has an effective process for promoting a reduced dependence on imported petroleum and adequate procedures are in place to monitor dependence and react to changing conditions.

Other

The budget subjects Energy Assistance and Assistance to the Mining Industry are managed by more than one Branch of the Department.

The programs conducted relate clearly to overall Department goals and objectives as outlined in strategic plans. Furthermore, the objectives and activities under these programs are defined in various documents and are subject to periodic evaluation.

Concluding Remarks

The project management practices of the Mines and Minerals, and Energy Branches are adequate. There is need for improvement in certain areas.

The Energy Branch has a well-developed long-range strategic plan to promote a reduction in dependence on imported petroleum. This is updated on a regular basis. The Branch has adequate procedures to monitor Nova Scotia's dependence on imported petroleum.

The programs and projects under the budget subjects Assistance to the Mining Industry and Energy Assistance for the years 1986 to 1991 relate clearly to Department objectives. These programs are evaluated periodically where applicable.

PROJECT MANAGEMENT FUNCTION FOLLOW-UP TO 1990 REVIEW

Background

During 1991 we followed up certain projects identified in our 1990 Annual Report article on the project management function for new information systems. The following projects are reported on in this article.

- Department of Transportation and Communications – Maintenance Management System (MMS)
- Department of Housing – Mortgage Management Information System (MMIS)

Both projects have required expenditures for new computer hardware and external development resources. They have also required a significant commitment of time and effort by Departmental management staff.

In our 1990 article we concluded that the project management function for the acquisition, development and implementation of information systems must be strengthened. We acknowledged initiatives by Management Board's Electronic Data Processing Advisory Committee (EDPAC) to implement a standard system development methodology. In addition we made the following suggestions.

- A centralized project control function should be established to monitor departmental project management activities on a timely and proactive basis.
- To the extent practical, the new standard system development methodology should be used on all information system projects.
- No new information system should receive final approval from the EDPAC unless the project has been fully planned and all costs to the Province estimated.
- Ensure that all project and project management related responsibilities are assigned only to qualified staff or others with the background and experience required.

- The status and costs of projects should be consistently and fully reported to the steering committees, senior department management, and the EDPAC on a regular basis.

It is expected that changes being implemented to policies, practices and standards within the Province will assist in improving the management of information system resources and projects. Specifically, these include initiatives flowing from the 1990 information resources management study sponsored by the EDPAC, including the issuing of the "Information Technology Architecture Plan" in spring 1991. Furthermore, recent changes to practices for tendering or requesting proposals and the awarding of contracts should have a positive impact on the extent to which the Province's interests are considered and assured in such projects.

It should be acknowledged that both the EDPAC and the Department of Government Services continue to have significant roles and responsibilities relating to information system projects and expenditures.

Results in Brief

The following summarizes the results of our examination of the information provided for the MMS and MMIS projects.

- The management and control of these projects have been deficient. There has not been, in our opinion, adequate due regard for economy and efficiency.

- Expenditures were made for new systems, as intended, but the authorizations provided through the EDPAC were not fully complied with.

- Payments were made for external development resources for systems that are not yet, but were supposed to be, operational. In the case of Transportation, the software will not be used.

- Hardware was acquired without tendering or requests for proposals, and there is no indication that negotiations were held to ensure the Province received the lowest price possible.

- Major project decisions were made and expenditure approvals given at a time when significant project concerns or issues were known and unresolved. Furthermore, the timing of certain hardware expenditures appears to have been influenced by pending expiry of budget authorizations.

- Due to the fact that planned deliverables for the projects were not fully received, hardware resources acquired have been underutilized.

Audit Scope

Our objective was to review and follow up issues identified during our 1990 work, and relating to our mandate concerning whether:

- expenditures have been made with due regard for economy and efficiency; and

- expenditures have been made for the purposes intended and as authorized.

The issue of this Office's right to access the EDPAC's files and information was not fully resolved prior to completion of this assignment. Consequently, we sought copies of the EDPAC approvals and other supporting information from the Departments. Not all information was readily available through the Departments. Eventually, we received copies of all specifically identified and requested EDPAC letters of approval for the two projects. This process was both cumbersome and inefficient.

A legal opinion concerning access to the EDPAC records was received on February 27, 1992 favouring no right to access. Further discussion on this topic is included in the article titled Audit Function and Reporting on page 22.

Principal Findings

Maintenance Management System (MMS)

In the late 1980's the Department of Transportation and Communications commenced a project to develop and implement a computerized maintenance management system. The MMS was intended to provide the Department, and its field offices, with more timely and reliable information to manage, control and account for highway maintenance activities.

The Department began a Province-wide implementation of the MMS in April 1989. Approximately $915,000 was expended for hardware and external software development prior to implementation of the new system being suspended. An external consultant's review, completed in fall 1989, identified a number of significant deficiencies in the system and the project and resulted in decisions to formally suspend and reconsider the project.

The hardware resources acquired at a cost of $518,000 have not and will not be used extensively for the MMS. They are being used to some extent for other Departmental purposes. The software developed will not be used. Current information indicates that a redefined MMS project will likely cost an additional $1.2 million for new hardware and external development resources.

Based on our review of the information and documentation available to us on the MMS project planning, control and results, we have concluded that:

- the management and control of the project did not provide adequate due regard for economy and efficiency; and

- expenditures were made for the purpose of a MMS, but the authorizations provided through the EDPAC were not fully complied with.

The following are our specific comments and observations concerning this project.

- Payments were made, as approved in the contract, to a consulting firm on a per diem basis with no holdbacks. There was a list of planned deliverables

in the contract but no requirement in the terms of the contract, or by management, to identify payments with deliverables. Not all the contract deliverables were received, and those that were did not function as intended.

It would have been more appropriate, and in the best interest of the Province, for payments to have been made based on the acceptance of well-defined deliverables. There has been no formal assessment of the Province's legal recourse in light of the fact that contract deliverables were not adequately met.

- The hardware, selected partially on the recommendation of the consultant, was sole-sourced. Although cost comparisons to similar hardware acquisitions by the Province were completed, no price negotiations with the supplier were carried out.

- Computer hardware and related resources were acquired in early 1989, at a time when significant system testing and other project concerns had been identified. We have seen no evidence of the resolution of these project concerns prior to the March 1989 delivery of the hardware, or the start of the MMS implementation in April 1989.

- The timing of this hardware acquisition appears to have been influenced by the pending expiry of authorized budget funds on March 31, 1989. Had the hardware acquisition and delivery been scheduled to coincide with actual implementation requirements, the Province may have been able to delay or cancel the order when system performance problems arose.

- The MMS project was identified by the Department of Government Services, Systems and Computer Services Division (SCSD) as a high-risk project. SCSD raised concerns about the Department's ability to provide the necessary project management resources. The project planning and the EDPAC approval identified the need for staff resources to manage and support the project. However, additional resources were not in place until mid-1989, approximately 15 months after the approval, and three months after the MMS implementation had started.

- The project organization and management were inadequate, and failed to effectively report or resolve significant outstanding issues and concerns identified. A project organization structure was in place, including an overall steering committee and various other committees, but the actual roles, responsibilities and reporting requirements were not clearly defined.

  The nature and extent of the project status and other reporting, including the monitoring of outstanding critical issues and concerns, were inadequate. Reporting to the Department's senior management was informal.

  Two summary reports were provided to the EDPAC, each at the time of requests for specific approval. These reports summarized the outstanding issues or concerns expressed by those involved, but did not adequately deal with their significance.

- An external consultant's review in the fall of 1989 indicated that certain benefits had been realized as a result of the Department's experiences on

the MMS project. In early 1991 the Department indicated that the MMS experience was being used to advantage in establishing proper structures and controls for the revised MMS project.

We acknowledge that lessons have been learned as a result of the MMS project failure, but at a significant cost to the Province. Certain of the basic deficiencies or issues which contributed to the project's failure were known and identified prior to implementation beginning.

Mortgage Management Information System (MMIS)

In July 1989 the Department of Housing, in co-operation with the Newfoundland and Labrador Housing Corporation (NLHC), initiated development of a mortgage management information system with an initially targeted contract completion date of July 1991. The software was being custom developed by an external consulting firm (the developer) on a fixed-fee basis. The Department's hardware was substantially upgraded to meet the requirements of this system, as well as for other Departmental processing. The hardware was acquired from the developer.

It was not part of our audit scope to assess the merits of the inter-provincial arrangements for development of the MMIS. Obviously, such joint initiatives must be assessed based on their merits, arrangements made, and activities planned and controlled to achieve the desired results for the Province in an economical and efficient manner.

Based on our review of the information and documentation available to us on the MMIS project planning, control and results to date, we have concluded that:

- the management and control of the project did not provide adequate due regard for economy and efficiency; and
- expenditures were made for the purposes of a MMIS, but the authorizations provided through the EDPAC were not fully complied with.

The following are our specific comments and observations concerning this project.

- The developer's software agreement, which was signed instead of the standard SCSD contract, placed restrictions or limitations on the Province's rights in a number of areas, including:
  - ownership and use of the system;
  - access to backup and documentation of source code;
  - ability to request information on or audit the developer's costs prior to payments;
  - ability to withdraw or cancel the contract;
  - recourse in the event of default; and
  - holdbacks on payments.

There was no formal legal review of the developer's software agreement to ensure the Province's interests would be adequately protected.

- To date the Department has not accomplished all the results intended. The software agreement for development of the system expired at the end of July 1991, and the MMIS is not complete.

  A change-order was issued September 10, 1991 to extend the term of the agreement to March 31, 1992, with no additional cost to the Province. All system development, installation and testing were to be completed by December 31, 1991. Acceptance and sign-off were to be completed by March 31, 1992. NLHC, who had withdrawn from the project in December, 1990, were not party to this change-order.

  The development, installation and testing were not completed by December 31, 1991. Acceptance and sign-off will not be completed by March 31, 1992. The plans and schedule for completing the system have yet to be fully and adequately defined.

- The inter-provincial steering committee recommended a schedule of deliverables form part of the contract. The EDPAC required, as one of the conditions of approval, the acceptance of a work plan and schedule of deliverables agreeable to the Province of Nova Scotia and the Newfoundland and Labrador Housing Corporation. The schedule of deliverables specified the costs and time for each of five phases. Only one phase, with a planned cost of $70,000, provided for progress billing. Payments for the other phases were to be made when they were completed according to the schedule of deliverables and accepted.

  The developer did not follow the schedule of deliverables. Payments were made totalling $108,500 on a percentage of completion basis against the contract fee of $146,250. Payment of a March 1991 invoice from the developer for $72,600 was released in August 1991 following expiry of the contract and after the percentage of completion was reviewed. A change-order amending the software agreement authorizing payments on a percentage of completion basis was not issued.

  Our review of the software agreement and information on the developer's invoice indicates that total payments to date could have been limited to $64,500.

- SCSD provided a system analyst to Housing who performed project management functions until January 1990. A December 1989 memorandum by the system analyst to SCSD management, copied to Housing, included significant comments and recommendations on the project. We have seen no evidence that the system analyst's memorandum was appropriately considered and adequately. It should have been addressed on a more formal and thorough basis. The system analyst was reassigned in January 1990.

- Detailed documented plans and schedules to control and coordinate project tasks and results were not maintained by the project management function subsequent to the SCSD system analyst being reassigned.

Other than in January 1990, monthly project status reports required from the developer were not received. In light of the concerns identified very early in the project, the nature and extent of the status reporting from the developer and the project team should have been more comprehensive and formal.

Subsequent to the withdrawal of NLHC in December 1990, Housing management held frequent meetings with the developer to review progress. Commencing in October 1991, the EDPAC has required bi-monthly follow-up reports on the status of development for the system.

- The initial hardware acquisition, at a net cost of $490,000, was sole-sourced from the developer, a local distributor for the equipment manufacturer. Housing and SCSD decided not to tender or request proposals from other potential suppliers of the hardware, so that one supplier would be responsible for the total system.

  Although a price quotation was received from the developer, there was no evidence of price negotiations to ensure the Province would realize any savings possible.

- The timing of the initial hardware acquisition was planned as part of the project's schedule of deliverables. However, the developer did not adhere to that schedule, and compliance was not enforced. In December 1989, the SCSD system analyst recommended the contract with the developer be cancelled. The hardware was nevertheless accepted and paid for in January 1990. The significance of the matters identified by the system analyst, in our opinion, warranted deferral of the acceptance and payment for the hardware until they were adequately resolved.

  A second acquisition of hardware at a cost of $112,000 occurred in March 1991 when there were significant known problems with the progress of development for the system, and inadequate plans as to when or how they would be resolved. In addition, the timing of this acquisition appears to have been influenced by the pending expiry of authorized budget funds on March 31, 1991.

- Due to the lack of progress in the development, the hardware has been underutilized. When complete and fully operational the MMS, along with other Departmental requirements, should more fully utilize the hardware.

Concluding Remarks

In addition to those previously mentioned, the EDPAC has the following initiatives planned or in progress aimed at improving the management of information system projects:

- establishment of guidelines for follow-up reporting to the EDPAC on major projects; and

- project management training on a government-wide basis.

With the EDPAC beginning to devote more of its time to information technology policy and planning issues, responsibility for central monitoring of departmental project management activities must be clearly defined and assigned.

Our 1990 conclusion outlined in the introduction of this article is again emphasized. The project management function for the acquisition, development and implementation of information systems must be strengthened. The results to date on the MMS and MMIS projects provide further support for this.

Furthermore, the accountability framework and reporting process for information system projects and expenditures must be clearly defined, including an adequate management or audit trail. Policies and practices must ensure adequate due regard for economy and efficiency,and that the intended results are achieved on an authorized and timely basis.

RESULT INDICATORS – WORKLOAD PRODUCTIVITY

INTRODUCTION

Departments of government should have planning and result indicator systems in place. They are needed to apply scarce resources towards the achievement of program objectives, and measure performance. Performance measurement is a necessary step in encouraging improved workload productivity.

In our 1987 and 1988 Annual Reports, we reported on our examination of the use of result indicators in the departments of government. We suggested that, in a well-run organization, result indicators will generally be found at three levels of output, namely:

- *Operational outputs* – related to work processes or what must be done to deliver a program.
- *Program outputs* – related to services which are recognized as benefits to the public.
- *Program effects* – the intended and unintended results or consequences of producing program outputs.

Our findings at that time revealed a strong tendency in departments of government to accumulate a number of detailed statistics at the operational output level, but relatively few at the program output and program effect levels. We also found there was an inadequate attempt to analyze the statistics that existed for the purpose of measuring performance.

In 1987 and 1988 we suggested that a contributing factor to insufficient performance measurement was a lack of policy direction from Management Board to encourage departments beyond the operational output level. The Province commenced the development of result indicators in the early 1980's, but the process had slowed down by the mid-1980's.

We recommended in 1988 that Management Board consider revising and issuing additional policy direction through Management Manual 200; policy that would encourage departments to improve their ongoing performance measurement systems. This has not taken place and the need for performance measurement data is of particular importance in periods of fiscal restraint. The absence of measurement leaves managers in a position of subjectively deciding where changes are required, rather than being able to objectively consider the impact of resource changes on operating results.

To place additional emphasis on our 1988 recommendations this Report looks at two departments of government in more depth – Solicitor General and Transportation and Communications.

At the Solicitor General, we were interested in how the Correctional Services Division of the Department contends with a relatively stable workload activity, and a need to balance workload 24 hours a day, 7 days a week. At Transportation and Communications we were interested in determining how the Construction and Maintenance Divisions handle periods of high and low volumes of workload activity resulting largely from seasonal operations. In both departments we extended our scope to determine the systems in place to recognize losses in productivity as a result of sick leave and other absenteeism.

The objectives for the reviews in both departments were to evaluate and assess the following key areas:

- planning and forecasting;
- operating policies and workload productivity systems; and
- sick leave and other absenteeism.

The following audit criteria were used for the assignment.

- Adequate planning and forecasting techniques should be in place to predict high and low periods of workload productivity.
- There should be policies that consider when best to use permanent staff, part-time and casuals, and/or overtime.
- Result indicators and other workload productivity systems should be used to measure performance and achieve overall smoothing of the workload.
- The use of part-time and casual employees and overtime should be periodically evaluated.
- Control procedures should be in place to monitor sick leave and other absenteeism.

The following articles are the results of our reviews in the two departments.

DEPARTMENT OF SOLICITOR GENERAL CORRECTIONAL SERVICES DIVISION

Background

The Department of Solicitor General was chosen as a representative department with the Correctional Services Division having a relatively stable workload activity, but a need to balance the workload 24 hours per day, 7 days per week.

The Province assumed responsibility for adult correctional institutions from the municipalities in 1986. A total of 14 institutions and approximately 400 staff were transferred. In 1988 the Province constructed the Nova Scotia Youth Centre in response to the Young Offenders Act of Canada. Currently the Correctional Services Division operates 9 institutions across the Province which range in size from 6 to 183 inmates.

Correctional institutions are continuous 24-hour operations. Minimum staffing levels are fixed in accordance with security requirements, negotiated into union contracts. Administrative and program staff work normal office hours Monday to Friday, and shift correction officers work rotating 12-hour shifts. Correction officers and youth workers are required to complete security and fire-life safety training. Youth workers are also required to have an undergraduate degree. Union contracts for the adult institutions are with the Police Association of Nova Scotia and for the Nova Scotia Youth Centre with the Nova Scotia Government Employees Union.

Results in Brief

The following are the principal observations and conclusions resulting from our examination.

- The Division makes prudent use of consulting services, particularly in the areas of institutional reviews and strategic planning.
- Minimum staffing levels within institutions are fixed in accordance with security requirements negotiated into the union contracts, thus limiting flexibility in human resourcing.
- Part-time staff utilization practices could be enhanced to achieve greater flexibility and minimize overtime.
- A significant amount of statistical data is accumulated but needs to be summarized in a form suitable for review and analysis to achieve a degree of performance measurement.
- Excessive use of sick leave has been identified as a problem with an annual average of 18 sick days per employee across all institutions. One large institution has an average of 31 days.

Audit Scope

We completed our review with evaluation and assessment of the following key areas:

- planning and forecasting;
- operating policies and workload productivity systems; and
- sick leave and other absenteeism.

Much of this review has been in the form of interviews with senior officials of the organization. We also examined management reports, financial reports, union agreements, budget data, contract documents, policy and procedure manuals and other records we determined appropriate to the review. Our review included a sampling of activities in two institutions.

Principal Findings

Planning and Forecasting

The Division has engaged external consultants, some jointly with the Department of Government Services, to help formulate a new corrections philosophy and to review correctional facilities. A long-range plan developed in 1979 resulted in the Province assuming responsibility for municipal correctional facilities in 1986. A review of this plan in 1990 culminated in a proposal to rationalize and modernize correctional facilities over a 10-year period. The reviews include identification of deficiencies within institutions, examination of trends in population growth and movement, and consideration of current sentencing philosophies.

Operating Policies and Workload Productivity Systems

Staffing levels at the correctional facilities are determined by security requirements. A minimum number are required for day and night shifts in keeping with union agreements. Operational planning is required to ensure that staff are available to cover gaps created by illness, vacation, other absences, and special security risks.

Part-time staff have been used to balance staffing requirements since the Solicitor General assumed responsibility for the institutions. Currently the Division has 93 approved part-time positions.

In the adult institution visited, we were informed that part-time utilization is kept as close as possible to normal full-time hours in order to retain quality staff. We cannot disagree with the goal of retaining quality staff, however the practice, if overdone, is contrary to achieving flexibility and minimizing overtime. It was suggested the Division review its utilization practices for part-time staff to reduce the incidence of overtime.

Regular and overtime hours worked by full-time and part-time staff and the related costs are recorded by the Department of Finance's Human Resources Management

System. This information is available to the institutions and head office on the "Earnings Distribution Details" report.

Significant time and effort is required to manipulate this information into a format suitable for analysis. We suggested that the Division investigate the development of a reporting system summarizing human resources information into various categories. This would enable individual and institutional comparisons to be made, the examination of trends, more reliable projections and problem identification.

The institutions record and report significant amounts of other statistical data. Statistics relate to such items as the number of admissions and releases by institution, average daily inmate counts, numbers of institutional staff and numbers of escapes. Such items were included as result indicators in budget submissions and in the Government's Strategic Planning Initiative. Other data is available through the Department of Finance, Civil Service Commission and other sources, but the information is not summarized from the various sources into a format for analysis and review.

We consider performance measurement to be a necessary step in encouraging improved workload productivity. We suggested the Division conduct a comprehensive review of data being accumulated. Relationships between the various groups of data should be investigated and information combinations considered to identify the existence of performance information. A second benefit of such a review may be the identification of significant amounts of statistical data not necessary or relevant to good operations. The Division has also been encouraged to move as quickly as possible beyond the levels of operational and program outputs to the level of program effects.

Sick Leave and Other Absenteeism

Control of sick leave and absenteeism is at the institutional level with functional assistance from Head Office and information from government-wide human resource management systems. There has been inconsistent enforcement among institutions and excessive use of sick leave has been identified as a problem at many of them.

A review of statistics for the fiscal year ended March 31, 1991 revealed an annual average of 18 days of sick leave per employee across all institutions. One large institution has an average of 31 days. Departmental policies have been defined and implemented including the requirement for employees, in certain circumstances, to provide doctor's certificates and other information. Implementation was too recent for us to observe the effect of these policies.

DEPARTMENT OF TRANSPORTATION AND COMMUNICATIONS CONSTRUCTION AND MAINTENANCE DIVISIONS

Background

The Department of Transportation and Communications was chosen as a representative department in view of its size, and the diversity and complexity of operations. Within the Department, we chose the construction and maintenance activities.

Construction is mainly conducted during May to December, a period when there can be large fluctuations of activity in response to other demands on contractors. Contracts are tendered on the basis of estimated quantities, with the lowest total bid, based on output, normally awarded the contract. Except for a limited amount of small construction conducted by the Maintenance Division, each construction contract is assigned to a Resident Engineer for monitoring.

The Construction Engineer in each region has a number of Resident Engineers reporting to him. Except for a small nucleus of permanent employees, construction-related positions are filled by certified and casual employees operating subject to a Canadian Union of Public Employees (CUPE) agreement.

Summer maintenance, including small capital projects, is conducted from May to December. The volume of work is relatively evenly distributed with constant staffing over this period. Winter maintenance is conducted from December to April, with the amount of work heavily dependent on the weather.

Maintenance is organized geographically with Foremen as the first line of supervision reporting to Superintendents, who report to Division Engineers. The Superintendent and Foreman positions have traditionally been Ministerial appointees, but now are gradually being appointed by open competition.

Results in Brief

The following are the principal observations and conclusions resulting from our examination.

- Planning at the Department is on a project-specific basis. There is no long-range plan with a prioritized listing of capital and maintenance projects. This is at least partially caused by the late approval of a capital budget by Government.

- The Department is conducting a feasibility study for the development of a pavement management system. This computerized system should enable the Department to more effectively identify capital project priorities.

- The Department has had no maintenance management system since 1988 and the development of the new computerized system has experienced

significant setbacks. This has seriously impacted the availability of workload and performance measurement data.

- There have been no maintenance or construction standards used by the Department for several years and therefore no concrete way to measure performance.

- In the maintenance area, past volumes and future expectations have little impact on staffing decisions.

- Capital construction activities comply mainly with the contractors' schedules. Start and completion dates are specified on contract documents but are seldom enforced. The Department has recently introduced a performance bonus system.

- Monthly sick leave and absenteeism reports are in use and we noted no excessive use or abuse of leave.

Audit Scope

We evaluated and assessed the following key areas:

- planning and forecasting;
- operating policies and workload productivity systems; and
- sick leave and other absenteeism.

Our approach was based on interviews with senior officials of the organization. We also examined management reports, financial reports, budget data, contract documents, policy and procedure manuals, and other appropriate records. Our review included a sampling of activities in one region.

Principal Findings

Planning and Forecasting

Construction – The Department does not have an overall long-range plan for the Province's future capital needs. It makes representations to government under the Strategic Planning Initiative but prioritizing is negligible and the most recent update was 1988. Future planning of major capital projects is conducted as projects are announced by Government. Projects are then divided into segments to be completed over a number of years.

The capital budget is usually approved during the spring sitting of the Legislature. The Department is often advised as late as June 1 as to the actual work that will be completed during the current year's construction cycle. This results in tenders being called when carry-over contracts from the previous year are in progress. This affects the Department's ability to plan and set achievable, enforceable dates for completion of contracts. We also acknowledge that environmental assessment

studies and the availability of funds through Federal/Provincial agreements may impact the Department's ability to plan.

The Department is conducting a feasibility study for the development of a pavement management system. This computerization should enable the Department to more effectively evaluate the Province's paved road inventory on an annual basis and identify priorities for upgrading. The establishment of a fund based on tax collection from gasoline and diesel fuel sales, dedicated to the Series 100 highways, has also enabled improved planning.

We recommended that the Department consider developing and maintaining a long-range strategic plan for capital construction. This would provide the Department with a means of identifying projects for recommendation to government.

In addition, we recommended that the Department request government to approve funds for capital construction at least one year in advance. This would enable the Department to better control the construction activities. It would also allow for effective planning and more efficient utilization of the work force.

Maintenance – The Department does not have a system in place to record maintenance work conducted on the Province's roads. Access to such a data base is fundamental to planning and management of maintenance operations. The level of maintenance has depended more on the dollars available, than on the basis of needs.

Maintenance budgets are established by the Maintenance Directorate at headquarters and allocated across the Province to Superintendents. These budgets are modified by the specific needs identified by the regions and may be reallocated among Superintendents.

Summer maintenance is traditionally completed within budget; the amount of work is adapted to the money available. Winter maintenance is less predictable, depending upon the severity of the weather. Departmental staff indicated that unrealistic budgets have frequently caused overspending on the winter budget.

Steel bridge maintenance is conducted by a nucleus of staff from headquarters plus staff from regions when required. No written annual plan is prepared for routine maintenance to be conducted on selected bridges. The steel bridge maintenance units basically operate throughout the year in response to emergencies. We were informed that a Committee has been recently established to develop a visual inspection program, and consultants have been hired to do structural analysis on the more inferior bridges and to propose remedial action.

Operating Policies and Workload Productivity Systems

Construction – Start and completion dates, specified on contract documents, are seldom enforced. The Department reacts to the contractor's schedule, which is likely to change on short notice. The result is that Resident Engineers responsible for construction contracts have little scope to plan their workload, achieve smoothing, and optimize staff mix. We were informed recently that the Department is gradually including and applying bonus incentives and enforcement penalties in their contracts. The initial emphasis is on bonus incentives.

The computerized information system for capital projects is useful but the non-enforcement of contract start and completion dates, plus other factors, can result in a degree of subjectivity in the information.

During the summer months, construction frequently extends to twelve hours per day. The CUPE agreement specifies regular hours of work and contains overtime provisions. There is no restriction on the use of shift work. We suggested that the Department consider shift work on large construction contracts to reduce the use of overtime and achieve better economy.

We also recommended that the Department reconsider its policy of non-enforcement of contract start and completion dates in conjunction with improvements to the planning process. The Department should strategically plan and prioritize capital construction at least one year in advance. We recognize that the Department's ability to do so depends on the need for government to give earlier approval to construction plans.

Maintenance – The Department, until 1988, had a maintenance management system which recorded the various categories of maintenance work. This manual system was considered slow and did not fulfill management's requirements. The Department did not maintain the manual system while developing a new computerized system, scheduled for completion in April 1989. The new initiative failed and as a result the Department does not have a maintenance system in place. A more detailed summary of problems in the development of this maintenance management system is in a separate article commencing on page 126.

A bi-weekly Maintenance Job Report prepared by foremen provides information within regions on jobs worked, labour hours and equipment used, material used, and costs. However, there are no established standards and the *accomplishment section* of the form is not used, resulting in incomplete measurement of performance.

A similar Maintenance Job Report is completed for steel bridge maintenance. In this case there is a narrative description of the maintenance work conducted, but not in the form of accomplishments or comparisons against standards that would enable measurement of performance.

The Department, prior to 1980, had standards set for maintenance work and actual output was compared to the standards for performance measurement. The control system for maintenance operations now consists of a budget allocation against which actual costs are accumulated. Comparisons are made of actual to budgeted costs for year-to-date, actual percent spent, and the previous year. This financial comparison is deficient as it does not consider the maintenance priorities chosen each year, and there is no productivity calculation of how much has been or should have been achieved.

In summary the Department does not have systems and standards in place to monitor against result indicators. The Department therefore is unable to measure the productivity of the various employees and groups, both within and between various regional offices.

We recommended that workload productivity standards should be established as soon as possible. A result indicator recording and reporting system should be developed to measure employee and group productivity and facilitate the planning and control of workload activity.

Sick Leave and Other Absenteeism

Uncertified CUPE members employed on a casual basis do not qualify for civil service benefits. Sick leave and absenteeism have no cost implications as casual workers are only paid for the days worked.

Sick leave for permanent employees and certified CUPE members is monitored by the Department's Personnel Division which updates the Province-wide attendance system. Cases of extensive leave or absenteeism are examined for adverse patterns which, if found, are reported to regional payroll supervisors. We suggested the Department consider more formal reporting to regional management to ensure proper follow up in these cases.

Concluding Remarks

The Province commenced the development of result indicators and performance measurement in the early 1980's at the operational output level, stressing that it was to be a building block towards eventually measuring the effectiveness of government programs. The process slowed down by the mid-1980's and does not appear to be a high priority in most of the departments of government. We are again suggesting, as in 1987 and 1988, that increased encouragement and policy direction from Management Board are required.

We consider performance measurement to be a required step in encouraging improved workload productivity which is very necessary, particularly during times of restraint. In many departments, there has been little effort to collect more than rudimentary operational outputs in order to satisfy requirements of central agencies of government. These are collected as statistical data and very little appears to be done with them.

Some departments, such as Solicitor General, have programs for which the actual output is difficult to quantify. Despite this difficulty, there are still many statistics available that may aid in operating more economically and efficiently. In these cases, a concentrated review and analysis of all data is required periodically to maintain and improve operations. In departments such as Transportation and Communications, there is a need to develop not only reporting systems to reflect the complexities and regional dispersion of operations, but also standards to measure performance.

TEACHERS' PENSION COMMISSION

Background

The Teachers' Pension Commission is responsible for administering the Teachers' Pension Act. More specifically, the Commission is responsible for approving pensions, refunds, purchase of past service applications, and for making regulations. All regulations of the Commission are subject to approval by the Governor in Council. The Commission has seven Commissioners. Four are appointed by the Government and three are elected by the Nova Scotia Teachers' Union (NSTU).

The Teachers' Pension Act confers certain responsibilities for teachers' pensions to the Department of Finance. The Department has been appointed as the custodian and trustee of the Teachers' Pension Fund. As of March 31, 1991 the Fund had assets of approximately $1 billion available for benefits.

The last actuarial valuation of the Teachers' Pension Fund was based on information as of July 31, 1988. This valuation estimated that the Fund had actuarial liabilities with a present value of $1.6 billion, assets of $.8 billion, and an unfunded actuarial deficiency of $.8 billion.

The Commission estimates that the deficiency is currently over $1 billion. The next actuarial valuation will be as of July 31, 1991, but has not yet been made available to our Office as of the writing of this Report.

In early calendar year 1991 we completed a special review of the Teachers' Pension Commission.

Results In Brief

The following are the major observations from this assignment.

- The Teachers' Pension Act has not assigned all the responsibilities required for an effective operation. We did not observe any assigned responsibilities not being fulfilled.

- The Commission has progressed significantly in the past two years towards the fulfillment of its major accountabilities. However, we recommended improvements in the Commission's Annual Report.

- There is an unfunded pension liability of approximately $1 billion. The size is principally the result of the past service costs of benefits negotiated without comparable changes in contribution rates, or other such actions, to control the increasing liability.

- There is disagreement on the extent to which the government, teachers, pensioners, or some combination of the three should contribute towards reducing the actuarial pension liability.

- Legislative changes are needed to clearly assign all significant responsibilities for the review and implementation of actuarial recommendations and the setting of contribution rates that more closely match the requirements of the future pension obligations.

Audit Scope

The objectives of this review were to:

- determine the roles and responsibilities of each of the participants in the administration and operation of the Teachers' Pension Fund, and to assess whether legislated responsibilities are adhered to;

- determine which groups the Commission is accountable to, and to assess whether it fulfills its accountability by way of relevant, regular and timely reports; and

- summarize and better understand the history and causes of the large unfunded pension liability and to determine what actions are being taken by various groups to address this problem.

Principal Findings

Roles and Responsibilities

We did not observe any responsibilities, assigned by legislation to the Commission, that were not being fulfilled. However, the following responsibilities are not covered or clearly defined:

- addressing financial difficulties such as the large unfunded pension liability, and addressing the recommendations of the actuaries;

- producing and distributing pension and other cheques, and controlling their accuracy;

- monitoring and controlling contributions from school boards; and

- description of the nature of financial reporting required for the Fund, and whether it should be a reporting responsibility of the Commission.

These omissions may have contributed to disagreements among those responsible for the Teachers' Pension Fund. The first omission has contributed to the financial difficulties the Fund now faces.

The Commission has assumed responsibility for the monitoring and control of contributions collected from school boards, and they have submitted reports and made representations to both the government and NSTU about the financial difficulties of the Fund.

While the content and format of the Fund's financial statements are not specified in the Act, we found the statements produced by the Department of Finance to be complete and well-presented.

The Teachers' Pension Commission accepts no responsibility for the preparation and approval of these statements. Since the financial statements reflect transactions that the Commission does control, such as pension payments, contributions and administration expenses, we have suggested the Commission assume joint responsibility with the Department of Finance for the preparation and approval of these statements.

Accountabilities

The Teachers' Pension Commission has a number of groups to which it is accountable, such as the pensioners, the teachers, the NSTU, the school boards, and the

government. In the past, the Commission has not fully accounted for its responsibilities, in a formal manner, to many of these groups. Its reporting was informal, and mostly directed to the Department of Education and the NSTU.

The Commission has progressed significantly in the fulfillment of its accountability responsibilities in the past two years. Most notably, it has started producing a comprehensive annual report, and annual pension statements for teachers. It has also prepared a pamphlet describing the rules and regulations of the Teachers' Pension Act.

Annual reports are distributed to each of the groups mentioned above, with the exception of the pensioners. Considering the Commission's responsibility to the beneficiaries of the Fund, we have suggested that retired teachers should also receive a copy of the annual report.

We have suggested improvements in the timeliness and financial contents of the annual report. Considering its importance, the annual report should be a requirement of the Teachers' Pension Act.

The Unfunded Pension Liability

The 1991 actuarial review of the Fund was not yet available to our Office at the time of writing this Report. Because of the seriousness of the financial condition of this Fund, the following highlights from the 1988 actuarial review, as well as some comments in our earlier Reports, are again emphasized.

- The unfunded liability at July 31, 1988 was $845.4 million, an increase of $174.9 million over the $670.5 million at June 30, 1984. The Commission estimates that the deficiency has now increased to over $ 1 billion.

- The assets of the Fund at July 31, 1988 were just over $768 million. The future benefits liability for those presently retired was almost $647 million at that time. Thus there was only $121 million available to look after the liabilities for those not yet retired. The accumulated contributions for all non-retired teachers, not including the Province's matching contributions, totalled $309 million.

- The 1988 actuarial report indicated that there will continue to be an excess of contributions received, plus investment income, over pension benefits until at least the year 2006. Then the Fund may have to commence paying benefits from the sale of securities. This, in our opinion, would be an intolerable situation for a defined-benefit pension plan.

The unfunded pension liability has resulted principally from the past service costs of benefit improvements negotiated between the government of Nova Scotia and the NSTU. It is our understanding that both parties were generally aware of the cost of benefits negotiated, and of their negative effect on the financial well-being of the Fund.

Government and NSTU officials have been aware of the seriousness of the Fund's unfunded liability for many years, and our Office has been reporting on the issue

since 1978. Over the years various studies, proposals and negotiations have occurred but no positive action has been taken to reduce or freeze the pension liability.

The primary role of the Commission is to administer the Act and to advise the Minister of Education and the NSTU. We noted that over the years the Commission has been active in studying and advising upon the financial difficulties of the Pension Fund. However, the Commission has no authority to make or negotiate changes to pension benefits or contribution rates on its own.

In our opinion the contribution rates should bear a strong relationship to the full requirements of future pension obligations. If this was legislated and key responsibilities assigned, it would go a long way towards preventing future significant increases in the unfunded pension liability.

Concluding Remarks

We believe the Commission is fulfilling the responsibilities conferred on it by legislation, as well as some other important duties not defined by legislation. We feel the Commission fulfills its responsibility of accountability in a much more complete and structured manner than in the past. However, the Commission's annual report, its key accountability document, could be strengthened.

We are aware of a number of initiatives by government and the NSTU to meet and negotiate a reasonable solution to the serious funding problem. We are also aware that the formal attempt to come to agreement in 1989-90 failed. We are pleased to hear that the government and the NSTU have jointly engaged an independent consultant to study and make recommendations on the unfunded pension liability.

There is no easy solution to this problem. We urge that a plan of action be developed and initiated. As time goes by and the funding problem is not effectively addressed, the unfunded liability grows and the ability of the Fund to meet future benefit obligations decreases.

In our opinion, the Commission should maintain an active role in monitoring and reporting on the seriousness of the Fund's actuarial liability.

DEPARTMENT OF TRANSPORTATION AND COMMUNICATIONS
REGISTRY OF MOTOR VEHICLES

Background

The Registry of Motor Vehicles (RMV) is responsible for the licensing of drivers and registration of motor vehicles. These functions generate approximately $60 million of annual revenue for the Province. There are 13 offices across the Province processing more than 1.6 million transactions each year.

In 1988 a new on-line computer system was implemented which had a significant impact on the business functions at RMV. One of the major features of this new system is the ability to process transactions immediately and provide customers with completed documents.

Several problems were encountered during the initial implementation of the system and RMV has directed extensive effort to resolve these problems over the past four years.

Results in Brief

The following are the principal observations and conclusions resulting from our review.

- There are adequate controls and procedures for processing licensing and registration transactions, and the recording of related revenues.
- Password access security controls need to be improved to ensure an adequate segregation of duties for maintenance of driver records and other files, and changes to computer programs.
- The economy of using external consulting staff for computer program maintenance and enhancements should be fully assessed.

Audit Scope

Our objectives were to review and assess the key transaction processing and general information system controls. We also reviewed the current status of actions to resolve the problems identified in a 1988 post-implementation review of the system.

We assessed controls against the basic standards outlined in the Canadian Institute of Chartered Accountants' publication *Computer Control Guidelines*. We performed limited testing to verify the existence of key controls and procedures at the time of our review.

Most of the audit was performed at the Halifax RMV office, although we briefly visited five other offices across the Province to confirm the existence and consistency of certain key controls and procedures.

The Motor Vehicle Inspection Division and general operating expenditures were excluded from the scope of this assignment.

Principal Findings

Transaction Processing Controls

We assessed the adequacy of controls, for the processing of licensing and registration transactions, in the following areas:

- mail and counter transactions;
- cash handling and depositing;
- refunds;
- certificates and plates inventory; and
- general ledger postings and reconciliations.

Although some suggestions for improvement were made to management, procedures and controls in these areas are generally considered adequate.

General Information Systems Controls

The following weaknesses which could impact on the integrity and reliability of the RMV system have been identified.

- There is inadequate segregation of duties in the recording and maintenance of driver records. As a result, unauthorized changes could be made to the records and not be detected. The recorded information includes driver offenses, convictions, suspensions, and accident statistics.

  Approximately forty employees in the Driver Records Section have identical password access privileges to the computer system. This enables each to add, change or delete driver records information. Not all employees require the same level of access to fulfill their job responsibilities.

  The system has the facility to log additions and deletions of records. The Section makes use of this facility but, to the extent practical, the logs should be reviewed on a regular and independent basis.

  We recommended that management review password access privileges, and amend individual employee access to reflect organizational responsibilities. Management has undertaken to do this.

- There is an inadequate segregation of duties in the area of system maintenance controls. There are 10 users, including the programmers at RMV, who have been provided password access privileges to the total system. This enables them to make changes to programs and promote these changes from the "test" to the "live" production environment. This latter function is one which should be highly restricted. It is not normally available to programmers.

- In summary, we found that management, although aware of the importance of password access security, in some cases extended access privileges to rectify operational problems such as backlogs. We suggested that management thoroughly review existing access privileges and ensure all future additions, deletions, and other changes to access privileges are properly authorized and documented.

Other Matters

During this assignment we identified the following additional matters for consideration by management.

- Since implementation of the system in 1988 RMV has contracted external consultants to meet some computer programming requirements for ongoing system development and maintenance. The current contract for three full-time programmers from a consulting firm represents an annualized cost of approximately $300,000.

  If other alternatives (such as personal service contracts or internal government staff resources) were used, the costs to the Province could be significantly lower. Since there is likely to be an ongoing requirement for program maintenance and enhancements, the economy of the existing arrangements should be fully assessed. We estimate this could achieve an annual saving of more than $125,000. However, we acknowledge that there are qualitative factors to be considered as part of any such assessment.

- The status of the recommendations made by the Province's external auditors as a result of a 1988 post-implementation review was followed up. Management indicated that all major recommendations have been addressed. We observed no significant matters which would indicate otherwise.

Concluding Remarks

Controls and procedures in the area of transaction processing are adequate. Certain weaknesses were reported to management which should be addressed to the extent practical.

General information system controls need to be improved. While there is an awareness of the importance of password access security, management extended certain access privileges to overcome operational problems. This inherent weakness could impact on the integrity and reliability of the RMV system.

The economy of continuing to use externally contracted programming staff needs to be assessed.

* * * * * *

OTHER AUDIT OBSERVATIONS

INTRODUCTION

Each year my Office performs many audits in the departments of government, reviewing their accounting and financial systems and examining transactions. The extent and variety of these audits is shown in Appendix II to this report which tabulates the 50 audits performed in 17 departments during the current audit year.

The provisions of Sections 8(a),(b),(d) and (e) of the Auditor General Act assign to me the responsibility for ascertaining whether in my opinion:

- all revenues to which the Province is entitled have been received, and there are adequate systems and procedures to administer the revenue collection function;

- money has been expended for the purposes appropriated and expenditures have been made as authorized; and

- essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

To fulfill this responsibility it is necessary to review and evaluate the financial accounting controls in the departments and agencies of government. If certain essential controls are found to be inadequate these deficiencies must be considered in rendering an opinion.

In addition, I have an audit responsibility for the annual financial statements of various crown corporations, Boards, Commissions and funds. There are 29 of these audits and they are listed in Appendix III. For these audits, the details of any qualifications of audit opinion, or situations in which it was not possible to render an audit opinion (referred to as a denial of opinion) must be described in full.

Section 9 of the Auditor General Act requires that I report certain specific items that come to our attention during our audits. This section of the Report does not fulfill that entire reporting responsibility but included are comments on accounting function performance, reservations of opinion, cash and other losses, and some comments on provincial retirement plans; items that have not been included in more extensive articles elsewhere in the Report. A large portion of our auditing of government departments is combined into one major audit assignment reported on page 114. That article includes several additional compliance and internal control weaknesses.

The reporting in this section is on an exception basis and therefore does not give credit to the many favourable situations that come to our attention. The number of audits indicated in the Appendices for which there are no comments does, however, provide some indication that many areas of government are operating well.

ACCOUNTING FUNCTION PERFORMANCE

Financial Statement Audit Delays

In past years, this Office has experienced significant problems in completing financial statement audits on schedule and within the hours budgeted, due to a lack of attention to the year-end accounting and audit process by certain audit clients. Our reporting on this subject began with the 1987 Annual Report due to major audit setbacks experienced that year.

Significant improvements were experienced for 1988, however certain events caused 1989 to be the worst in recent years in this respect. We reported that conditions had improved in 1990 and we can report further improvement in 1991. The impact of delays on completion of financial statement audits is, however, so pervasive that certain items are again emphasized in this Report. Three fundamental reasons contributing to delays were identified and reported last year.

- There sometimes is an attitude in certain agencies, corporations and departments that causes insufficient attention and priority to be placed on readiness and support for annual financial statement audits.

- Staffing inadequacies in some entities require staff of this Office to perform some year-end accounting work.

- Many entities have a dependence on data generated by the Department of Finance and, if final data is delayed, the year-end accounting procedures are delayed.

The completion of financial statement audits does not appear to be given priority by certain entities. Regardless of the reasons for this attitude, financial statements are a critical requirement when priorities are being set for the utilization of scarce resources within the entity and the Province.

The adverse effect of delays goes further however than resource allocation. The effects on the Office of the Auditor General, for example, relate to both efficiency and audit coverage. Any delays in beginning or completing an audit can impact the timely performance of a number of other audits, and reduce the efficiency of our audit function. It is also obvious that additional time required to complete audits takes away from the hours we have available to apply to a wide variety of other audits.

There also can be an adverse impact on finalizing the Public Accounts and the financial statements of the Province. Certain of the financial statements we audit are integral to the Public Accounts and others, such as loan and pension funds, are important to the financial statements of the Province.

A third important consideration is the effect of delays on the financial administration function of the entities being audited. Unreasonable delays in completing an audit cause important financial reporting to become available long after its usefulness has diminished, and cause delays and inefficiencies in the routine accounting functions that must be performed concurrent with the annual audit visit.

Actions Taken During 1991

The improvements this year were significant. Most audits were completed by July 31, 1991 to enable the former Auditor General to sign the audit opinions prior to his retirement. Credit must be given to certain key entities such as the Nova Scotia Business Capital Corporation and the Department of Housing, responsible for financial statements of the Housing Development Fund and the Housing Development Corporation. While some documentation deficiencies in all three of these cases caused delays, there was a notable change in priorities and improvement in readiness which we appreciated.

Much of the significant improvement resulted from discussions between senior management of the Department of Finance and this Office prior to the 1991 financial statement audit cycle. The following steps were instituted to improve the process.

- The Department of Finance communicated with all entities concerning the need to meet specified financial statement completion deadlines.
- All entities were instructed to proceed with preparation of their financial statements on the basis of Period 13 data from the Department of Finance, with the data scheduled to be available between April 20 and 25, 1991.
- Certain entities with loan fund mandates estimated their allowance for doubtful accounts on a preliminary basis as at February 28, 1991, in order to expedite year-end finalization.
- Certain departments providing services to others were instructed to process their year-end billings by April 30, 1991.
- The Office of the Auditor General continued its practice of sending detailed written instructions to all auditees, regarding items required for the year-end audit.

These steps, with the co-operation of most financial statement preparers, resulted in our being able to meet the strict July 31 deadline that we imposed on ourselves. The major factor was the success of the Department of Finance in finalizing the year-end accounting of the Province and getting the necessary Order in Council approvals of doubtful account write-offs at a much earlier date than in previous years.

We intend to continue our policy, outlined in last year's Report, to bill for excess audit time incurred, regardless of whether or not we have normally charged a fee for the entity's annual audit. In 1991 there were delays experienced in completing the audits of the Public Service Superannuation Fund, the Teachers' Pension Fund, and the Board of Commissioners of Public Utilities. Required items were not available at the scheduled starting dates for those audits and, should delays occur again this year, we will charge the entities.

CASH AND OTHER LOSSES

Pursuant to Section 9 (1) (e) of the Auditor General Act, I report the following incidents where *"there had been a deficiency or loss through fraud, default or mistake of any person"*, for the fiscal year ended March 31, 1991. The following is a summary, by department, of cash losses and equipment either stolen or damaged.

Department	Cash Losses	Equipment Stolen or Damaged
Advanced Education and Job Training	$263	$5,795
Agriculture and Marketing	–	2,175
Attorney General	522	2,355
Consumer Affairs	–	504
Housing	500	–
Lands and Forests	4,469	4,250
Small Business Development	484	1,489
Tourism and Culture	688	–
Transportation and Communications	–	15,916

There have been no arrests or recoveries except in the case of Lands and Forests. The losses indicated for Lands and Forests resulted from 11 break and enters at various locations. Police investigations resulted in arrest and convictions in two instances, and recoveries totalling $615 in two other instances.

Not included above is a loss of $5,239 as a result of fraudulent activity by an employee of the Department of Lands and Forests who was subsequently dismissed, charged and convicted. Recovery of $4,979 has been made.

PROVINCIAL RETIREMENT PLANS

INTRODUCTION

The Auditor General is responsible for auditing the Public Service Superannuation Fund, the Nova Scotia Teachers' Pension Fund and the Members' Retiring Allowance Account. Each audit results in an audit opinion and a review of contributions received, investments, and pension and allowance payments.

The position of each fund in relation to future pension and allowance commitments is not assessed by this Office. Actuaries qualified by the Canadian Institute of Actuaries conduct these assessments on a regular basis. The most recent published reviews are as follows:

Public Service Superannuation Fund – March 31, 1990
Members' Retiring Allowance Account – March 31, 1989
Teachers' Pension Fund – July 31, 1988

The actuarial valuation of a pension fund is a relatively complicated process. It involves mathematically forecasting future expectations for the pension plan, taking into consideration factors such as anticipated salary progression, estimates of inflation, the rate of return on invested funds, and probable rates of employee retirement, death, or disability.

The actuary prepares an "actuarial balance sheet" which shows the present value of liabilities for pension benefits earned to that date for pensioners and for active employees still working, anticipated future benefits earned to date payable for active employees, and expected refunds of contributions upon death or termination of current employees. From the total liabilities so calculated is deducted the current value of all investments in the fund at the date of the actuarial balance sheet. When these liabilities exceed the available assets, it represents an unfunded actuarial liability. This means the pension plan has commitments to be met in the future for which funding has not been provided.

It has been the practice of this Office to comment annually on the results of the valuations for the Public Service Superannuation and Teachers' Pension Funds because the unfunded liabilities of both plans are relatively large. This year we are also commenting on the Members' Retiring Allowance Account where the deficit, while of a smaller dollar value, has increased to more than four times the level of six years ago.

Teachers' Pension Fund

An actuarial review of the Teachers' Pension Fund at July 31, 1991 was started in the fall of 1991. However, as of the writing of this Annual Report, the results of this review were not yet available to our Office. We conducted a special review of the Nova Scotia Teachers' Pension Commission this year, and the results of this assignment, including discussion of the unfunded liability, are reported on page 140 of this Report.

Public Service Superannuation Fund

In last year's Annual Report we noted that the March 31, 1990 actuarial report on the Public Service Superannuation Fund, issued in October 1990, contained the following principal conclusions.

- The unfunded liability at March 31, 1990 was $246.4 million or 19% of the present value of pension liabilities. This compared favourably with $240.6 million at March 31, 1987 which, while less in dollar amount, represented 24% of the present value of pension liabilities.

- Current contributions to the Fund at April 1, 1990 exceed the costs of benefits being earned. The excess is available to reduce the unfunded liability.

In their report, dated October 1, 1990, the actuaries state that *"In our considered opinion, there is likely to be a small margin of conservatism in the actuarial assumptions adopted for this valuation, and there is a reasonable probability that the present level of contributions will be sufficient over the long term to provide for the present level of benefits."*

Members' Retiring Allowances

Background

Members of the Legislative Assembly are entitled to receive retiring allowances pursuant to provisions of the Members' Retiring Allowances Act. The operation of the plan is generally conducted within the Members' Retiring Allowance Account to which Members and government matching contributions and interest are credited, and payments to pensioners and terminating Members are charged. If at any time the account balance is insufficient to make required payments, an amount will be credited to the account from the Consolidated Fund of the Province.

All provinces provide retiring allowances for former Members of their legislatures. These plans reflect the need to provide adequately for those who have served in elected office, thereby foregoing the opportunity to accumulate pension benefits in other employment-related pension plans. It is important that elected office be accessible to everyone, regardless of financial situation, and that an appropriate level of financial security be provided to Members and their families.

Years of service for Members are lower than for civil servants since continuation in office depends on election results, not the will of the individual. Therefore, the terms of Members' Retiring Allowances are different from those of the Public Service Superannuation Fund.

Members contribute 10% of indemnities, allowances and salaries and the government contributes an equal amount. The government also pays interest on the account balance at a rate equal to the average Provincial borrowing rate. Pensions are paid on the basis of the average indemnities, allowances and salaries for the three highest years, at the rate of 5% for each year for which contributions were made, to a maximum of 15 years. Members are not required to contribute beyond 15 years. There is a minimum retiring allowance of the greater of $500 per month or the number of years service times $50, to a maximum of $750.

A Member qualifies for benefits on ceasing to be a Member after having served five years during two or more General Assemblies, and having attained age 50. Former Members who qualify for a retiring allowance may make application for an actuarially reduced allowance as early as 40 years of age. Retiring allowances are increased annually by the lesser of the increase in the Consumer Price Index or 6%.

The House of Assembly Act provides for the Speaker to appoint a Commission of Inquiry each year to review the indemnities, allowances and salaries paid to Members, including Members' Retiring Allowances. The recommendations of the Commission have the same force and effect as if enacted by the Legislature.

Actuarial Review

Actuarial valuations of benefits under the Members' Retiring Allowances Act are carried out periodically and provide an estimate of liabilities at a point in time, calculated on the basis of various assumptions with respect to pension plan costs and interest rates. The most recent actuarial review of benefits payable under the Members' Retiring Allowances Act was at March 31, 1989, issued in June 1990.

Assumptions relating to future interest and inflation rates have a significant impact on the results of actuarial reviews. For this review, the actuaries used two different sets of assumptions. The first assumptions, reflecting rates at the time, were an interest rate of 10% and an inflation rate, used to predict annual escalation of pension benefits, of 6%. The second assumptions were an interest rate of 7% and inflation of 5%.

The review includes the following significant observations.

- At March 31, 1989 the pension plan had actuarial liabilities of $26.3 million and assets of $1.7 million, resulting in a deficit of $24.6 million assuming an interest rate of 10% and 6% escalation ($33.2 million deficit at 7% interest and 5% escalation). The most recent actuarial review of the plan prior to 1989 was as at December 31, 1982. At that time, the actuarial deficit was $6.9 million.

- Additional benefits were implemented January 1, 1990 as a result of the Report of the Commission of Inquiry on Remuneration of Elected Provincial Officials. These increased the deficit by $3.6 million to a total of $28.2 million ($37.4 million at 7% interest and 5% escalation).

- Annual contributions by Members and the government are insufficient to meet the costs of the benefits earned each year. The cost of benefits earned in the 1990 fiscal year was reported by the actuaries to be $1.4 million at 10% interest and 6% escalation ($2.1 million at 7% and 5%). Of that amount, $.2 million would be funded by the Members and another $.2 million by the government.

  The unfunded portion would, therefore, be $1 million at 10% and 6% or $1.7 million at 7% and 5%.

- The annual contribution required from the government to fund the benefits earned during the 1990 fiscal year, less Member contributions, would equal 49% of the Members' annual salary costs and expenses at 10% interest and 6% escalation (75% at 7% and 5%).

Our Concerns

We have two concerns relating to the Members' Retiring Allowance Account.

- Over the approximately six years from December 1982 to March 1989, the deficit in the account grew by $17.7 million. Additional benefits implemented January 1, 1990 increased the deficit by at least $3.6 million. An interval of six years between actuarial reviews is too long, particularly when pension benefits are improved on an annual basis.

- There is no accountability for the cost of improvements to the plan. The cost of improvements is not calculated or reported on an annual basis as the improvements are made. There is no provision made in the financial statements of the Province to accrue the liability for a significant portion of the benefit earned each year. In future years, the balance of the Members' Retiring Allowance Account will undoubtedly become insuffi-

cient to meet the annual obligations making it necessary to draw upon the Consolidated Fund of the Province.

The amount of the deficit was reported in the notes to the Province's financial statements for the first time on the March 31, 1991 financial statements. This disclosure improves the accountability for the plan somewhat, but does not result in accrual of the liability or recording of the related expense as recommended by the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants. It recommends the following:

> *"The statement of financial position should account for the pension liability and the statement of revenues and expenditures should account for the pension related expenditures on the basis of the value of the pension benefits attributed to employee service to the accounting date."*

The Report of the Commission of Inquiry on Remuneration of Elected Provincial Officials, dated November 29, 1990, makes the following comment on this issue:

> *"It may well be appropriate that legislative or accounting changes be considered to ensure that future liabilities for retiring allowances are recognized as expenses in the year when earned by the members. In the absence of a fully funded plan, a policy of reporting expenses and liabilities as future entitlements accrue would at least ensure members of the Legislature are accountable for the plan in effect during their time of service."*

This comment is consistent with the recommendation of the Canadian Institute of Chartered Accountants. Although the Province does not accrue the unfunded liability for the Public Service Superannuation Fund (PSSF), the impact on accountability is less serious for that Fund. For the PSSF, the annual charge to the current expenditures of the Province exceeds the costs of benefits earned during the year. For the Members' Retiring Allowances, the annual charge to the current expenditures of the Province is much less than the cost of benefits earned during the year.

The terms of the Members' Retiring Allowances do not comply with draft amendments to the Income Tax Act dated December 1989. The effective date of these amendments is uncertain, but the Department of Finance is examining options to make the retiring allowances comply with the proposed legislation. These options include a change from the existing plan to two complementary plans; one would be a registered, funded plan and the other would be an unregistered plan, either funded or unfunded, for benefits not permitted in a registered plan. In total, the two plans would provide benefits similar to those of the existing plan.

Concluding Remarks

The unfunded liability of the Public Service Superannuation Fund did not change significantly with the most recent actuarial review.

Contributions to the Fund continue to exceed the current service costs of benefits being earned. It is the actuaries' opinion that *"the present level of contributions will be sufficient over the long-term to provide for the present level of benefits"*.

The deficit of the Members' Retiring Allowance Account has increased significantly over the past six years mainly due to annual improvements in benefits. These benefits have been implemented without due regard for their cost. The annual charge to the current expenditures of the Province related to the Account is much less than the cost of benefits earned during the year. As a result, accountability for Members' Retiring Allowances is inadequate.

RESERVATIONS OF OPINION

Financial Statement Audits

This Office has responsibility for the annual audit of financial statements of various crown corporations and agencies as listed in Appendix III. An audit opinion is expressed on whether these statements present fairly the financial position of the entity at the fiscal year-end and the results of its operations for the year then ended. Where there are qualifications of audit opinion, or situations in which it was not possible to render an opinion, these reservations are included in my Annual Report to the Legislature.

This year in the performance of our financial statement audits there were only two cases where it was necessary to express a reservation of opinion and they pertained to the Housing Development Corporation and the Housing Development Fund. Material errors were noted in our audit of transfers between the Fund and the Corporation. The errors were not adjusted because the Province had closed its accounting records when the errors were discovered. These errors, amounting to $2.7 million, are being corrected on a prospective basis during the 1991-92 fiscal year. The errors do not have an impact on the Statement of Current Revenue and Expenditure of the Province, but do overstate the amount of advances shown for Housing in Statement 6 of the Public Accounts and understate the accounts payable of the Province.

System Compliance Weaknesses

In the performance of our audits of departments and crown agencies, we found several situations where the systems and procedures were deficient to the extent that reporting to the Legislature is required. These are described in the following paragraphs.

Young Offenders Claim – Community Services – While we were able to express an audit opinion that the cost recovery claim for March 31, 1990 was fairly presented in all material respects, certain weaknesses in systems and procedures were noted.

- Administration costs were allocated as a percentage of the salary and travel expenses of certain employees who spent time on young offender matters. There is no written agreement with the Federal government detailing how administrative cost percentages are to be calculated.

- A review of a sample of travel claims did not result in a material monetary error in the cost recovery claim. We were however concerned with the inadequacy of supporting documentation available for persons scrutinizing the claims.

- The Department accumulates statistics for shareable and non-shareable pupil days, as a means of determining the portion of custodial costs shareable by the Federal government. For 1990 and prior years, pupil day statistics were summarized manually on quarterly facility attendance reports. These reports were discontinued in the 1990-91 year because the Department commenced development of a computerized system to accumulate pupil day statistics. The computerized system is still in its developmental stages and this Office conducted a preliminary review of the system in April 1991. We found serious deficiencies in audit trails and controls over the accuracy and completeness of pupil day totals at that time. We suggested that the Department maintain its manual system until the computerized system has been fully developed and tested.

A year earlier when auditing the 1989 claim, we reported weaknesses in controls regarding the incomplete recording of warrants on facility attendance reports. We recommended that staff cross-check the attendance logs maintained in the institution against the reports to ensure accuracy and completeness. This procedure was not implemented by institution staff because of the introduction of the new computer system. This control procedure should also be re-implemented until the computer system has been fully developed, tested for accuracy and completeness, and put into use.

Nova Scotia Crop and Livestock Insurance Commission – In the conduct of our audit to express an opinion on the 1991 financial statements of the Commission, we noted certain weaknesses in accounting and internal controls. Although they were not of a magnitude to require a reservation to our audit opinion on the financial statements, they are reportable under the requirements of Section 8 of the Auditor General Act.

- The Commission incurs various administration costs which, following verification and approval by Commission staff, are forwarded to the Department of Agriculture and Marketing for payment.

  One such transaction approximating $19,000 was paid twice and was brought to the attention of the Commission by the supplier. We recommended closer scrutiny of transactions and periodic financial reports to verify that all charges are accurate and appropriate.

- The Commission administers plans for Crop and Livestock Insurance. The Federal and Provincial governments share in certain insurance premiums and administration costs of the Commission.

  During our audit we found, in reconciling the claims to accounting records, that one claim was understated by $5,109, resulting in the Commission underclaiming half of that amount or approximately $2,500. We recommended that the Commission establish a system of periodically reconciling reimbursement claims to the accounting records.

- A basic principle of internal control is that the custody of assets should be segregated from the record-keeping function. We found that inadequate segregation of duties existed in the processing of cash receipts. The accountant is maintaining the accounting records, preparing bank deposits, taking the funds to the bank, and also processing the mail including cash receipts. We recommended that the Commission improve control over the cash receipts function.

Cancer Treatment and Research Foundation – In the conduct of our audit to express an opinion on the 1991 financial statements of the Foundation, we noted inadequate segregation of duties in the processing of cash receipts. One person receives cash and other funds, prepares a cash receipt, and deposits the funds in the bank. There is no check that all funds received are subsequently deposited in the bank.

Although the weakness noted is not of a nature to require a reservation to our audit opinion on the financial statements, it is nevertheless reportable under the requirements of Section 8 of the Auditor General Act.

Nova Scotia Legal Aid Commission – Legal Aid expenses for young offender, criminal and civil actions are shared in varied proportions, through agreement, by the Federal and Provincial governments. A lack of proper systems to provide an adequate audit trail has caused the Office of the Auditor General significant difficulties in auditing annual claims over the past few years.

Since 1987 the Commission, under an unwritten agreement with the Federal Department of Justice, has been developing a management information system that should improve the availability and integrity of information while also providing an improved audit trail for this Office. The original intention was for the Nova Scotia Legal Aid Commission to develop and operate the system as a pilot project, which the Department of Justice would then recommend for use by other provinces. Unfortunately, the capping of expenditures by the Federal government has caused a great deal of concern to the Commission and the Department of Attorney General.

In preparation of the 1990 Federal claim, the Commission included an amount of $475,927 as management information system costs. It was necessary for our Office to qualify the audit opinion on the claim, since the amount had not been paid and, instead, represented a reserve provision for future expenditures. Provisions of this nature are not specifically permitted as shareable under the Agreement. The Commission expressed concern that the Federal Department of Justice may not share in the development of the system because of the capping of expenditures effective March 31, 1990.

By March 31, 1991 the system was still not complete but the Commission had entered into a contract to purchase from a specific supplier, and an amount of $587,252 had been deposited in trust for the computer system. The hardware was delivered during the summer of 1991, and we have approved the 1991 claim with the systems development costs included.

In hindsight, it was unfortunate that the Commission attempted to include a major information system project under the regular cost-sharing provisions of the Legal Aid Plan. It would have been more appropriate to have a separate written agreement, designed to accommodate the very special requirements of the project. Not having the responsibilities of the Federal and Provincial authorities established in

writing contributed greatly to the problems, including uncertainty. The 1991 claim is in the hands of the Department of Justice for consideration of payment at the time of preparing this Report.

Nova Scotia Business Capital Corporation – The following comments, concerning the Venture Corporations Act, are included under the Nova Scotia Business Capital Corporation (NSBCC) because the assistance under the Act forms part of the Industrial Expansion Fund for which the NSBCC is responsible. We do acknowledge that neither NSBCC's Board of Directors nor its management had any direct involvement in the administration of the assistance under the Venture Corporations Act for the year ended March 31, 1991. For that year, the Department of Small Business Development was responsible for administration of the Act.

However, in light of the public funds involved, and the fact that repayments are to commence in 1992, it is essential that the administrative responsibilities for this assistance be clearly established and effectively monitored.

We identified the following instances of non-compliance with the Venture Corporations Act:

- 32 annual audited financial statements required under Section 15 of the Act were filed late;
- 3 annual audited financial statements were not received;
- 34 annual returns required under Section 16 (1) of the Act were filed late; and
- 3 annual returns had not been received.

In addition, there were nine instances where annual audited financial statements for venture capital corporations were recorded as received, but could not be found when we requested them. Also, two files relating to a venture capital corporation were missing.

An employee of NSBCC was appointed Administrator of the Act effective April 2, 1991. The Administrator must, among other duties, ensure that venture capital corporations comply with the Act. Further, effective November 1, 1991 the duties of the Venture Corporation's Board were assigned to the NSBCC.

* * * * * *

PRIOR YEARS' OBSERVATIONS

INTRODUCTION

This Annual Report continues the practice commenced in 1986 of tabulating the status of all previously reported significant recommendations and observations. Last year this list included items from nine previous Reports, 1981 to 1989 inclusive.

Added to the tabulation this year are matters arising from articles included in our 1990 Annual Report where the comment still applies, the recommendation has not been implemented, or the status is to be determined at the time of a future audit. Also included are items mentioned in last year's status article which were resolved during the current year. Where pertinent, reference is made to articles in this year's Report.

There are 50 topics noted and the following summarizes their current status.

Comment still applies, or recommendation not implemented	13
Recommendation partly or substantially implemented	14
Status to be ascertained at a subsequent audit	23
	50

Summary of Previously Reported Recommendations and Observations	Status - at Preparation of 1991 Annual Report	Reference Year	Page
Accountability and Effectiveness Reporting			
• Greater degree of accountability and effectiveness reporting by boards and commissions.	Comment still applies.	1991 1990	25 35 - 37
• Enhancement of the role of Management Board relating to: – coordination; – monitoring and assessment; and – prescribing required practices.	Some improvements noted in 1991 regarding prescribed practices.		
• Need for improved information systems.	To be evaluated during future audits.		
Estimates			
• Need to realistically anticipate all major expenditure requirements.	Comment still applies in certain cases.	1990 1989 1988 1987 1986	55 49 73 59 50-51
• Use of Result Indicators encouraged, but development and use inconsistently applied in departments.	Comment still applies.	1988 1987	162-168 111-113

Summary of Previously Reported Recommendations and Observations	Status - at Preparation of 1991 Annual Report	Reference Year	Reference Page
Public Accounts			
• Certain advances under the Universities Assistance Act, which do not represent realizable recoveries from outside parties, are included on the Statement of Financial Position, contrary to prudent accounting practice.	Comment still applies.	1988 1987 1986 1985	48 40 28 29
Auditor General Act			
• Recommended that the audit of the Public Accounts should be the responsibility of the Auditor General.	Comment still applies.	1991 1990	30 23, 38-44
• Recommended amendments to the Act to provide an appropriate degree of independence, particularly regarding appointment of the Auditor General and administration of the Office.	No amendments but independent administrative arrangement followed for appointment of Auditor General.	1989 1988 1987 1986	34 37 30 29

Public Accounts Committee			
• Recommendation for various improvements in operation and structure of the Committee, relating principally to: – formal enunciation of Committee's role and responsibilities; – use of agendas and background material; and – provision for follow-up to Committee recommendations.	A Steering Committee of the PAC studied methods for improving effectiveness of the Committee. Some improvements noted in operation.	1991 1989 1988 1987 1986	28 33-34 52-53 42 30
Financial Topics			
• Additional appropriations are too frequently requested by departments, and approved by Executive Council after the end of the fiscal year, often six months later.	Comment still applies.	1990 1989 1988 1987 1986	55 49 75 59-60 53
Crown Agencies and Corporations			
• Recommendation that legislation is required for crown agencies and corporations to enhance their accountability by providing for consistent reporting and disclosure requirements, a definition of status, and related matters.	Comment still applies.	1990 1989 1988 1987 1986	64 58 83 67 56-57

Summary of Previously Reported Recommendations and Observations	Status - at Preparation of 1991 Annual Report	Reference Year	Reference Page
Halifax-Dartmouth Bridge Commission			
• Policy required for ongoing monitoring and consultation regarding long-term debt, including more complete analysis of refinancing options.	Partially implemented. See follow-up on page 66.	1989	61-68
Lending Administration			
• The administration and accounting for all financial assistance provided to business and industry should be co-ordinated through one entity.	Departments of Industry, Trade and Technology and Small Business Development merged. New Business Development Division to administer and account for lending activities for accounts of the four loan funds.	1990 1989	123-132 157-162
• Lack of compliance with information filing requirements of the Venture Corporations Act.	Responsibility for monitoring and follow-up procedures assigned in 1991.	1989 1987 1986	160 155 128
Nova Scotia Rehabilitation Centre Corporation			
• Need for improved budgeting and financial reporting systems and practices.	To be evaluated at a future audit.	1990	66-74
• No formalized strategic planning.	To be evaluated at a future audit.		

Transfer Payment Reviews

School Boards

• Inadequate accountability provisions such as measurable goals and outcome measures.	Have developed a comprehensive action plan.	1991 1990	94 89-103
• Infrequent monitoring by Department of Education.	Have developed a comprehensive action plan.		
• Provincial long-range plan for school construction required.	To be followed up at a later date.		

Universities

• Accountability requirements to the Province are inadequate for outputs and results.	To be followed up at a later date.	1990	104-118
• Need for long-range provincial plan for capital requirements and funding.	To be followed up at a later date.		
• Deficiencies in systems for the use and control of fixed assets at universities.	To be followed up at a later date.		

Summary of Previously Reported Recommendations and Observations	Status - at Preparation of 1991 Annual Report	Reference Year	Reference Page
Departmental and Other Audit Observations			
Annual Reports of Departments			
• Deficiencies in sufficiency of information provided, and timeliness of presentation by several departments.	Sufficiency of information to be evaluated at a future audit. Timeliness deficiency still exists.	1988	126-131
Department of Attorney General			
• Sheriffs' offices - deficiencies in cash receipt and disbursement practices, relating to cheque signing and cash deposits.	To be evaluated at a future audit.	1986	71-73
• Provincial Judges and Prothonotaries - improvements planned for: – internal controls for Provincial Judges Administration Units; – the Provincial Court information system; and – procedures for collection of fines.	To be evaluated at a future audit.	1988	115-120

Department of Community Services			
• Recommendations were made regarding the need to: – develop a long-range plan for orderly development of Homes for Special Care; – develop formal criteria for prioritization of projects; and – remedy deficiencies in the rate setting process and administration of it.	To be evaluated at a future audit.	1988	120-125
Computer Related Audits - Project Management Function			
• Improvements needed in management of acquisition, development and implementation of new information systems.	Comment still applies. See follow-up on page 124.	1990	136-143
Department of Consumer Affairs			
• Inadequate follow-up procedures for Orderly Payment of Debts accounts in arrears.	To be evaluated at a future audit.	1989	109

Summary of Previously Reported Recommendations and Observations	Status - at Preparation of 1991 Annual Report	Reference Year	Reference Page
Department of Government Services			
• Implementation of a long-range facilities plan on a government-wide basis.	Not yet implemented.	1988	135-146
• Charging of space to Departments and agencies.	To be evaluated at a future audit.		
• Delays in the timeliness of the billing recovery process.	To be evaluated at a future audit.	1989	118-119
Grants and Assistance			
• Need for policy statement instituting government-wide criteria for review, approval and control for grants and assistance.	To be evaluated at a future audit.	1989	120-124
• Need for specific criteria for various grant programs at the department level.	To be evaluated at a future audit.		
• Need for policies and guidelines to ensure criteria are adhered to.	To be evaluated at a future audit.		

Department of Health and Fitness			
Nova Scotia Commission on Drug Dependency			
• Need for improved procedures to evaluate the efficiency and effectiveness of certain programs.	To be evaluated at a future audit.	1989	124-128
Community Health Services			
• Need for measurable objectives for many of the programs in Community Health Nursing; and to increase frequency of public health inspections.	To be evaluated at a future audit.	1989	128-131
Internal Audit			
• Outstanding recommendations arising from a government-wide study including:		1987 1986	99-101 94-96
– need for expanded audit scope into economy and efficiency areas;	In most internal audit mandates, but not widely carried out.		
– need for planning and risk analysis;	To be evaluated at a future audit.		
– need for central internal audit resource for smaller departments; and	To be evaluated at a future audit.		
– need for staffing, training and performance enhancements.	Some progress in these areas, including expanded internal audit staffing in Departments of Education, Government Services, Health and Fitness, Transportation and Communication, and Victoria General Hospital.		

Summary of Previously Reported Recommendations and Observations	Status - at Preparation of 1991 Annual Report	Reference Year	Page
Department of Municipal Affairs			
• Recommended meetings with municipalities to seek ways to resolve problems with administration and collection of business occupancy taxes.	To be followed up at a later date.	1990	160-167
Department of Natural Resources			
• Recommendations were made regarding the need for:		1990	156-160
– improved protection of Record Centre information;	Planning has commenced, physical changes contingent on renewal of Department's lease.		
– improved management procedures and controls at the Crown Lands Surveys Division; and	Most of our recommendations have been implemented.		
– more boundary line maintenance.	Improvements have been made.		
Payments to Consultants			
• Suggestions of a greater role for Management Board in the control of consulting arrangements in Government.	New directives issued in 1991. To be followed up at a later date.	1990	167-176
Provincial Retirement Plans			
• Teachers' Pension Fund – large and growing unfunded liability.	See article, page 140	1990	201-203
		1989	163-165
	Comment still applies.	1987	141-142
		1986	120-121

Result Indicators			
• Recommendations were made regarding the need for: – a higher priority being placed on the use of result indicators; – additional policy direction in this area; – correlation in timing and content, and in the requirements of the result indicator process; and – a greater degree of analysis of performance, using result indicators.	See article, page 131 Comments still apply.	1988 1987	162-168 108-113
Royal Commissions' Expenditures			
• Need for guidelines to assist in the administration of special commissions.	Comment still applies.	1990	177-183
• Need for adequate consultation and advice to special commissions on matters relating to administration, expenditure payment, personnel and other related matters.	To be followed up at a later date.		
Department of Solicitor General			
• Inadequate systems for control over bed/day statistics to support Young Offenders Act recovery cost claim.	System being developed. To be followed up at a later date.	1990	205-206

Summary of Previously Reported Recommendations and Observations	Status - at Preparation of 1991 Annual Report	Reference Year	Reference Page
Department of Transportation and Communications			
• Serious weaknesses in the internal controls in the non-Civil Service payroll system, for non-certified employees, due to incompatible duties performed by area foremen.	Comment still applies.	1989 1988	167 198
• Recommendations were made regarding the need for better documentation on the determination of purchase and sale prices for land.	Recommendations have been implemented.	1990	188-191
Vehicle Utilization			
• Need for centralized responsibility to monitor compliance with prescribed policies and guidelines.	To be evaluated at a future audit.	1989	145-152
• Improved data required in certain departments on vehicle costs, and greater compliance with management manual reporting requirements.	To be evaluated at a future audit.		

Victoria General Hospital

• Serious inadequacies in the systems for monitoring and collection of accounts receivable: – assignment of responsibility for follow-up of overdue accounts; – lack of appropriate reporting to senior management of age of accounts receivable and collection trends; – instances where policies and procedures did not exist, or require revision; – numerous examples of late, incomplete, or inaccurate information; and – bills or statements not prepared for prior month's charge.	Some improvements made, but overall system still deficient. Follow-up of accounts being implemented but improved analysis still required. Reports now prepared and regularly submitted. Policies/procedures being updated with new systems development. Steps being taken to improve this condition on implementation of new system. Changes with development of new system.	1990 1989	206 168

* * * * * *

OFFICE OF THE AUDITOR GENERAL

OFFICE OF THE AUDITOR GENERAL

Introductory Comment

At the time of writing this Report, a new Auditor General has been named, although he will not assume office until April 1, 1992. Mr. Paul Cormier, F.C.A. retired July 1991 after 17 years with the Office, the last 7 as Auditor General. We wish Mr. Cormier all the best in his retirement. At the same time, we look forward to the arrival of our new Auditor General, Mr. E. Roy Salmon, F.C.A.

Staff Complement

As at April 1, 1989 we received approval to increase our staff complement from 33 to 35, in order to fulfill an expanded mandate into the areas of transfer payments and value-for-money. During 1990 it was reduced to 34 in the interests of government restraint as applied in all departments of government. During the past year the approved complement remained at that number, although the paid full-time equivalents have been held to less, through efforts to economize.

The approved complement as at November 30, 1991 comprised:

Senior Management		6
Auditor General, Deputy and Assistant Auditors General, Senior Audit Director, and two Directors		
Audit Teams and Support Staff		
Audit Managers and Supervisors	10	
Senior Audit Officers with Professional Qualifications	7	
Audit Officers – includes Students and Technicians	7	24
Administration and Support Staff		4
Total approved staff complement		34
Actual staff at November 30, 1991		32

Two positions, Auditor General and Assistant Auditor General, were vacant due to retirements.

Over the past several years, there has been a marked shift in emphasis in the type of audit work performed, not only by this Office, but by most other provincial legislative audit offices. A summary of the relative time devoted by our Office to the principal areas of audit activity during the past year is as follows.

- Annual financial statement audits of various agencies, crown corporations, and funds – 40%.
- Review of transactions for compliance, and controls and systems in government departments, including computer related systems controls and audit of cost-sharing claims – 23%.
- Review of management practices in those entities receiving grants and assistance from government, namely transfer payment reviews – 20%.
- Special audit assignments in departments, on a government-wide basis, and in crown corporations where the Auditor General is not the appointed auditor, including computer related reviews – 17%.

Last year we reported there were several instances of a lack of priority and preparation by entities for whom we conduct financial statement audits. I am pleased to report significant improvements in this regard as described in a separate article on page 151.

Financial

The Auditor General Act provides for the payment of operating expenses incurred by the Office, along with the recovery of costs and fees charged for specific examinations and audits. The approved Estimate and the actual expenditures and recoveries for the year ended March 31, 1991 are shown below, as are the 1989-90 actuals.

	1990-91		1989-90
	Estimate	Actual	Actual
Expenditures			
Salaries and benefits	$1,741,400	$1,746,346	$1,566,665
Other	194,600	159,692	197,191
	1,936,000	1,906,038	1,763,856
Chargeable to Other Departments	71,500	73,500	69,500
	1,864,500	1,832,538	1,694,356
Recoveries	89,700	94,700	91,450
Net Expenditures	$1,774,800	$1,737,838	$1,602,906

The Office operated within its approved budget for 1990-91, and the actual net expenditures were $37,000 less than the Estimate. Salaries and benefits were more than the Estimate as a result of cost of living increases, which are offset through increased recoveries. Certain other expenditures were deferred when we learned that our offices might be relocated.

Professional Development and Affiliations

To meet the legislated and other audit responsibilities of this Office, staff must maintain a high degree of knowledge and competence in a multitude of areas. This

includes developments in auditing and accounting standards and techniques, computer topics (for audit and administrative purposes), and the other skills necessary to perform audits which go beyond the traditional financial statement and compliance audits. There is an increasing expectation for legislative auditors to extend the breadth and depth of audit coverage to include matters of economy and efficiency, all crown corporations and agencies, and grants and assistance to eventual recipients. This latter extension includes the audit of universities, school boards, hospitals and other community agencies across the Province.

We use various initiatives to meet these demands, and to provide better and more efficient audit performance and service. These include membership in professional and other appropriate associations and organizations, active participation in the exchange of information and ideas among legislative auditors, the conduct of in-house technical presentations, and attendance at seminars presented by various organizations.

The Office regularly sends representatives to three annual conferences, all of which continue to provide benefits to the Office. They enable our staff to learn from the audit experiences and research activities of others. The three conferences are:

- The annual Canadian Conference of Legislative Auditors, which was held in Winnipeg, Manitoba in August. This conference was in conjunction with a meeting of the Canadian Council of Public Accounts Committees.

- The Atlantic Provinces Legislative Auditors' Annual Meeting, held in St. John's, Newfoundland in July.

- The Annual Conference of the Canadian Comprehensive Auditing Foundation, held in Montreal in November.

Since our last Report two staff members obtained their Certified General Accountant designations upon successful completion of the student program and passing of qualifying examinations. This is a significant achievement, and we heartily congratulate them for attaining this goal.

We presently have two staff members enrolled in the Certified General Accountants program of study.

Several of our staff, generally on their own time, participate in professional organizations. Many hold office, serve on councils and are members of committees. We again commend these individuals for the contributions they are making to their respective organizations.

* * * * * *

APPENDICES

APPENDIX I

AUDITOR GENERAL ACT

SECTION 8

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

SECTION 9

(1) The Auditor General shall report annually to the House of Assembly the results of his examination and call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money; or

(g) money which is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency,

and to any other case that the Auditor General considers should be brought to the notice of the House of Assembly.

(2) The report of the Auditor General shall be laid before the House of Assembly on a day following the day upon which the Public Accounts have been laid before the House of Assembly.

(3) Whenever a case of the type described in clause (a),(b) or (e) of subsection (1) comes to the attention of the Auditor General, he shall forthwith report the circumstances of the case to the Minister.

(4) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of government of any significant matter discovered in an audit.

(5) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

SECTION 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

SECTION 17

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

* * * * * *

APPENDIX II

AUDITS PERFORMED BY AUDITOR GENERAL

IN GOVERNMENT DEPARTMENTS

Advanced Education and Job Training
- National Training Claim
- University Assistance - compliance

Agriculture and Marketing
- Nova Scotia Agricultural College
- Review of Internal Control

Attorney General
- Legal Aid Federal Claim
- Legal Aid Trust Fund

Community Services
- Canada Assistance Plan
- Family Benefits
- Hospitals/Nursing Homes - Shared Services
- Pharmacare Program
- Young Offenders Act

Education
- Education Grants - compliance
- Museum Claims
- Review of Internal Control
- Teachers' Pension Commission

Finance
- Additional Appropriations
- Debt Charges - compliance
- Disbursements
- Federal Transfer Payments
- Payroll
- Provincial Tax Commission
- Review of Internal Control

Government Services
- Publishing Services - compliance
- Rental of Premises - compliance

Health and Fitness
- Ambulance Subsidies - compliance
- General Hospital Services - compliance
- Hospitals/Nursing Homes - Shared Services
- Medical Services Insurance
- Out-of-Province Recoveries

Housing
- Housing Development Fund Claims
- Project Management - Mortgage Management Information System

Industry, Trade and Technology
- Loan Status
- Review of Internal Control

Labour
- Fire Marshal - compliance
- Occupational Health and Safety - compliance

Natural Resources
- Assistance to the Mining Industry
- Energy Planning
- Project Planning
- Review of Internal Control

Public Service
- Sport and Recreation Commission - compliance

Small Business Development
- Review of Internal Control

Solicitor General
- Recoveries
- Result Indicators - Workload Productivity
- Young Offenders Act

Tourism and Culture
- Attractions and Events - compliance
- Cultural Affairs - compliance

Transportation and Communications
- Project Management - Maintenance Management System
- Registry of Motor Vehicles - Information System Controls
- Result Indicators - Workload Productivity
- Review of Internal Control

Note – The above tabulation includes the Special Departmental Reviews described in the section of this Report beginning on page 98.

* * * * * *

APPENDIX III

FINANCIAL STATEMENT AUDITS PERFORMED BY AUDITOR GENERAL

CROWN CORPORATIONS, BOARDS, COMMISSIONS, AND FUNDS

Agricultural Organizations
- Nova Scotia Crop and Livestock Insurance Commission
- Provincial Community Pasture Board
- Provincial Grain Commission

Education Institution
- Atlantic Provinces Special Education Authority

Hospitals
- Camp Hill Medical Centre
- Cancer Treatment and Research Foundation of Nova Scotia
- Halifax Infirmary Foundation
- Nova Scotia Hospital
- Victoria General Hospital

Lending Organizations and Funds
- Housing Development Fund
- Industrial Expansion Fund
- Industrial Loan Fund
- Nova Scotia Business Capital Corporation
- Nova Scotia Farm Loan Board
- Nova Scotia Fisheries Development Fund
- Nova Scotia Housing Development Corporation
- Small Business Development Corporation

Pension Funds
- Members' Retiring Allowance Account
- Nova Scotia Teachers' Pension Fund
- Public Service Superannuation Fund

Regulatory Bodies
- Board of Commissioners of Public Utilities
- Nova Scotia Lottery Commission
- Public Accountants Board of the Province of Nova Scotia

Other
- Novaco Limited
- Nova Scotia Legal Aid Commission
- Nova Scotia Primary Forest Products Marketing Board
- Nova Scotia Research Foundation Corporation
- Nova Scotia Talent Trust
- Public Trustee

* * * * * *

APPENDIX IV

AUDITS PERFORMED BY PRIVATE SECTOR AUDITORS

CROWN CORPORATIONS, BOARDS, COMMISSIONS AND AGENCIES

Art Gallery of Nova Scotia
Check Inns Limited
Council of Maritime Premiers
Halifax-Dartmouth Bridge Commission
Halifax Harbour Cleanup Incorporated
Nova Scotia Liquor Commission
Nova Scotia Liquor License Board
Nova Scotia Municipal Finance Corporation
Nova Scotia Power Corporation
Nova Scotia Rehabilitation Centre Corporation
Nova Scotia Resources Limited
Schooner Bluenose Foundation
Sherbrooke Restoration Commission
Sydney Steel Corporation
Tidal Power Corporation
Trade Centre Limited
Upper Clements Family Theme Park Limited
Waterfront Development Corporation Limited
Workers' Compensation Board of Nova Scotia

Hospitals
(Agencies as defined in Auditor General Act)

Eastern Memorial Hospital
Eastern Shore Memorial Hospital
Glace Bay Community Hospital
Inverness Consolidated Memorial Hospital
Northside Harbor View Hospital
Strait Richmond Hospital
Cape Breton Regional Hospital
Twin Oaks Memorial Hospital

* * * * * *